Key Success Factors of Local Revenue Toward City And District Government Performance in Yogyakarta

by Bambang Jatmiko

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Abstrack

This research aim is to get empirical evidence the effect of local taxes, fees, profit enterprises and other on local government revenue performance. Sleman District, Kulon Progo District and Yogyakarta City get lower General Allocation Fund (GAF) in 2010. While General Allocation Fund for Bantul District was decrease in 2009. The research method is quantitative with secondary data from the Financial Statements for entire district and city in Yogyakarta Special Local. The research objects are Yogyakarta City, Sleman, Bantul, Kulon Progo, Gunung Kidul. Research result can be explained as follows. (1) local taxes has significant positive effect on local government financial performance; (2) Local retribution has no effect on local government financial performance; (3) Local Enterprises (BUMD) have no effect on local government financial performance; (4) Other authorized revenues has no effect on local government financial performance; (5) Own-source revenue has positive and significant effect on local government financial performance.

Keywords: Local Revenue, Government Performance

INTRODUCTION:

Balancing tasks, functions and roles between central and local government make each local should have sufficient earnings and should have the adequate financing power to assume responsibility for local administration. Law No. 32 of 2004 gives authority to local governments to regulate all government affairs, enabling the local government to organize and manage the interests of local communities. Autonomous authority requires every local government to improve services in a democratic and equitable in an effort to make independent, prosperous and competitive local government. Local government organization requires the accountability element. Accountability is an essential element to achieve good governance. Government is asked to report the program results that have been implemented so that people can assess them. The research problem is Sleman District, Kulon Progo District and Yogyakarta City has lower General Allocation Fund. While General Allocation Fund for Bantul District has declined in 2009. An important criterion to determine local ability significance is the ability in finance (Asha Florida, 2006). Financial factors become essential factors to assess local's ability to implement its autonomy. This means that a local need of funds from local revenues to run local administration affairs. Wenny (2012) examine the effect of local revenues on financial performance. The research result shows that that revenue (LR) simultaneously has an effect on financial performance. However, only LR has legitimate significant effect on financial performance, while local taxes, levies, and company revenue and local wealth do not have significant effect on financial performance of district and city in of South Sumatra Province. Gideon Simanullang (2013) examined the effect of capital expenditure, intergovernmental revenue and local revenue performance on local financial of cities and districts in Riau Province year 2008-2012. Study results show that capital expenditure does not have significant effect on performance of local work units in Riau province. Intergovernmental revenue has significant effect on performance of local work unit performance. It is evidenced from the results of F test F and t-test to shows the effect of 20.76% and revenue source has a significant effect and proven at 23.93%. Capital expenditures, Intergovernmental revenue and local revenue simultaneously have significant effect on local financial performance in Riau province with determination test at 96.6%. Wan Vidi Rukmana (2013) examined the effect of local taxes, levies and fund balance performance on government finance at Riau Province. Study results show that local tax and matching grant partially have significant effect on government financial performance, whereas levies do not have significant effect on government financial performance. Local taxes, levies, and matching grant simultaneously have significant effect on government financial performance in 2009 - 2011. Arief Eka Atmaja (2011) examines the factors affecting the local revenue (LR) in Semarang City. Study results show that local expenditures, population and GDP simultaneously affect on local revenue. Local expenditures, population and GDP partially affect on LR. The biggest effect on local income in Semarang is Population.

LITERATURE REVIEW

Autonomy

Law No. 32 year 2004 on local government paragraph 1 (5) and (6) explain definition of local autonomy as rights, powers and obligations of locals autonomous to set up and manage their own affairs and interests of local communities in accordance with existing law. The local main characteristic that capable to implement autonomy is four. First is financial capacity, it means that local has the ability and authority to explore the finance sources, manage and use their own finances to fund governance. Second is dependence on central assistance should be as minimal as possible. Therefore, LR must be the greatest financial resources supported by finance balance between policies of central and local (Landiyanto, 2005). There are four important Law principles on local autonomy which needs to be understood. First, decentralization principle is devolution of government power toward autonomous locals within framework of Unitary State of Republic of Indonesia. Second, deconcentration principle is the authority delegation by government administration to governor as representatives of governments and/or the vertical institutions in a particular local. Third, Co-administration is the assignment from the government to local and/or provincial governments to village of district/city and/or country as well as from the city/district government to village to carry out specific tasks. Forth, fiscal revenues between central and local government is a system of government financing within framework of a unitary state to includes the equal financial distribution between central and local governments in proportional, democratic, fair, and transparent with regard to potential, conditions and needs of local, consistent with obligations and division of authority as well as the procedure for organization of such authority, including financial management and supervision. Local autonomy will have a positive effect on economic sector for local economy. There are four economic indicators for a local success to implement local autonomy. First is an increase in local economic growth (GDP) in real, so that per capita income will be pushed. (2) Second is an increase trend of investment, both foreign and domestic investment. Third is higher tendency of development prospects of business/businesses in local. Forth is higher trend of local governments and communities creativity.

Local Revenue (LR)

Local revenues are all local income from local economic resources. Article 157 of Law No. 32 year 2004 on local government states that LR group was separated into four types of revenue below.

a. Local tax revenue is levies by local governments based on legislation stipulated by local regulations. The levy is imposed on all objects such person or entity and movable or immovable objects, such as the tax of hotel, restaurant, entertainment, advertisement, parking, etc.
b. Local retribution is local charges as payment/discharging because obtaining the services rendered by local or in other words the levies are charges made in connection with a service or facility provided direct and tangible, such as a levy of Health Services, levy Sanitary Service, funeral service levy, charges for services wastewater treatment, etc.
c. Revenue from separated local properties. It is include local revenue from separated wealth management, as profit from capital investment to local-owned enterprise (LOE), profit from capital investment to private-owned company or business group community.
d. Other legitimate local revenue is local revenue from other asset of local government, as inseparated local asset sale, current accounts, interest income, etc.

Prakosa (2005) Explains that local taxes are compulsory contributions made by individual or entity to locals government without balance direct reward. It can be imposed by legislation in force, which is used to finance the implementation of local government and local development. Levies are local taxes as payment for services or granting certain permits specifically provided by local government for benefit of individual or entity. It can be concluded that levies are collected by local due to a remuneration provided by Local Government (Prakosa, 2005). Levies consist of three groups.

A. Public service retribution is a levy on services provided by local government for purpose and benefit of public and can be enjoyed by individual or entity;
B. Business service retribution is a levy on services provided by local governments with commercial principle because it basically can be provided by private sector.
C. Retribution from special licensing is a levy on specific activities in order local government gives permission to an individual or entity that is intended for guidance, regulation, control and supervision over the utilization of space, natural resources, goods, infrastructure, facilities, or certain facilities in order to protect public interest and preserving the environment.

3. Local Revenue and Expenditure Budgeting (APBD)

Law No.32 of 2004 on local authorities mentioned that Local Revenue and Expenditure Budgeting (APBD) is annual financial plan of local government established by local regulations. Budgets are one of driving machine of economic growth. The budget has role as a driver and one determinants principle of macroeconomic targets achievement and locals target are directed to overcome various obstacles and problems in realizing the agenda of a prosperous and independent society. Budget management policy is focused on optimizing the functions and benefits of revenues, expenditures, and financing for achievement the annual target of development agendas. Local revenue management will continue to be directed to improve LR. It will need intensive and extension efforts to optimize the existing revenue sources and exploring new sources.

4. Local Financial Performance

Local government financial performance is achievement level of local's financial management to include budget and actual revenue by using the financial indicators through a policy or statutory provisions during the period budget (Florida, 2006). Performance measurement is based on financial ratio between the realization of local revenues with central government grant and provincial loans. Ongoing performance measurement will provide feedback as continuous efforts to improve performance objective within a specific time period. One tool to analyze the local governments performance is financial ratio analysis of has been defined and implemented. Ratios which can be used in measurement of local government financial performance are below (Bastian, Batubara, 2009).

a. Independence Ratio

It demonstrates local government's ability to finance the governmental activities, development and service to public who have paid taxes and levies as a source of income needed by local government.

$$\text{Independence Ratio} = \frac{\text{Total local revenue}}{\text{From Central, province government and loans)}}$$

Independence ratio illustrates the local's dependence on external funding sources. Higher Independence ratio means that level dependency of local government on external assistance (particularly the central government or provincial) is lower and vice versa. Independence ratio also illustrates the level of community participation in local development. Higher independence ratio means higher community participation to pay taxes and levies as the major component of local revenue (LR).

B. Fiscal Effort Ratio

It measures the level of local's ability to achieve the target local revenue (LR).

Fiscal effort ratio = (Total local revenue)/(Total local budget)

Higher the ratio means better local government efforts and good planning to manage revenue.

c. Fiscal Decentralization Ratio

This ratio shows the authority and responsibility given by central government to local governments to explore and manage revenue.

$$\text{Fiscal Decentralization Ratio} = \frac{\text{Local Revenue}}{\text{Total Local Revenue}}$$

Or

$$= \frac{\text{Profit Sharing and Non-Tax for Local}}{\text{Total Local Revenue}}$$

5. Previous Research

The research results of previous studies can be explained below.

a. Cherrya Dhia Wenny (2012) makes a study with the title "Analysis the Effect of Local Revenue (LR) on Financial Performance in District and Municipality of South Sumatra Province ". The study results show that local revenue (LR) simultaneously have significant effect on financial performance. However, only other LR legitimate has significant effect on financial performance, while local taxes, levies, and company return and local wealth do not have significant effect on financial performance at district and city in South Sumatra Province.
b. Gideon Simanullang (2013) makes a study with the title "Effect of Capital Expenditure, Intergovernmental Revenue and Local Revenue on Local Financial Performance at City and District in Riau Province Year 2008-2012". The study results show that capital expenditure has no significant effect on performance of local apparatus work units in Riau Province. Intergovernmental revenue has significant effect on performance of local apparatus work units. It is evidenced from F test and t test to shows the effect of 20.76% and source revenue has effect of 23.93%. Expenditures, Intergovernmental revenue and

local revenue simultaneously have significant effect on local financial performance in Riau Province with the effect of 96.6%.

c. Wan Vidi Rukmana (2013) makes a study with the title "Effect of Local Taxes, Levies and Fund Balance on Government Finance Performance in Riau Islands Province". Study results show local tax and matching grant partially have a significant effect on government financial performance. Levies have no significant effect on government financial performance. Local taxes, levies, and matching grant simultaneously have significant effect on government financial performance in 2009 - 2011.
d. Arief Eka Atmaja (2011) makes a study with the title "Analysis the Factors Influencing the Local Revenue (LR) in Semarang City ". The study result show that local expenditures, population and GDP simultaneously have significant effect on local revenue. Local expenditures, Population and GDP partially have significant effect on LR. Population has dominant effect on local revenue in Semarang.

6. Hypothesis Development

a. Effect of local tax on financial performance

Law No. 28 Year 2009 on Local Taxes and Levies explains that local tax is mandatory contribution to locals that are owed by individuals or entities that are enforceable under the Act, without direct rewards and used for greatest local prosperity. Local government independence should be promoted through local financial growth as original sources of local wealth such as local tax. Florida (2006) and Rukmana (2013) explain that local taxes have a significant effect on financial performance. Adversely, Wenny (2012) explains that tax did not significantly affect on local finance. This performance can be seen through the target achieved in implementation of development and service to community. Higher local taxes earned by local should increase development achievement objectives in local to increase achievement performance. This shows that larger local tax may affect the financial performance. Based on description above, it can be developed hypotheses below.

H1: Local tax has positive effect on financial performance of City and District Government in Yogyakarta Special Local.

b. Effect of levies on government financial performance

Law no. 28 in 2009 defines levy as the local charges as payment for services or certain special permits provided by local governments for benefit of individuals or bodies. Florida (2006) and Rukmana (2013) show that levies has significant effect on financial performance. Levies are one revenue source that also important indicators to determine and evaluate the local government financial performances Florida (2006). The local government is expected to be able to explore the local resources to meet the local government financial needs and local development would affect the local financial performance. Based on description above, it can be developed hypotheses below.

H2: Levies have positive effect on local's financial performance of City and District Government in Yogyakarta Special Local.

c. Effect of local-owned enterprise on government financial performance

State-owned enterprises that managed by local government is called local-owned enterprises (LOE). The local company is established by local governments with most capital come from local government. The purpose is development and construction of economic potential in local. Examples of local enterprises are Water Company (PDAM) and Local Development Bank (BPD). Wenny (2012) shows that local-owned enterprise has no dominant effect on local financial performance. Adversely, Florida (2006) differs with research of Wenny (2012). Florida (2006) states that LOE income does not affect on financial performance. Local-owned enterprises have very important and strategic position to support the implementation of autonomy. Therefore, LOE management need to be optimized in order to become a powerful economic force that can play an active role, both in performing its functions and duties as well as the strength of local economy and can improve the local government financial performance. Based on description above, it can be developed hypotheses below.

H3: LOE profit has positive effect on financial performance of city and district administration in Yogyakarta Special Local.

e. Effect of other legitimate income on financial performance

Other legitimate revenues are revenues are not included in local taxes, local levies and offices revenue. Other legitimate local revenues comes from sales of inseparated local assets, deposits service, interest income, and spread between rupiah against foreign currencies; and commissions, discounts, or other forms and sale and/or procurement of goods and/or services by local government. Wenny (2012) states that other LR legitimate significantly affect on financial performance. Meanwhile, study of Florida (2006) is contrary to Wenny (2012). Florida (2006) states that other legitimate LR does not affect on financial performance. Other legitimate local business gives opportunity for local government to carry out activities that produce either material in these activities to support, paving, or establish a local policy sector in specific fields. Other legitimate revenues may affect on financial performance. Based on description above, it can be developed hypotheses below.

H4: Other legitimate revenue has positive effect on financial performance of City and District in Yogyakarta Special Local.

Effect of local revenue on government financial performance

Law No. 28 of 2009 explains that local revenues is local financial resources from local tax revenue, local retribution, local separated wealth management and other legitimate local revenues. Florida (2006) and Wenny (2012) states that Local Revenue (LR) simultaneously affect on financial performance. Local revenue is a component of local revenues as has been set in article 79 of Law No. 22 year 1999 on local government explains that a local government can be measured by money because of authority given can makes local tax and retribution. Higher local income show higher the achievement of development and progress. It affect on financial performance of local. Based on description above, it can be developed hypotheses below.

H5: LR affect on financial performance of City and District in Yogyakarta Special Local.

METHOD:

This is a quantitative research using secondary data. Data is obtained indirectly from Supreme Audit Agency (BPK), Department of Revenue, Finance and Asset Management (DPPKAD) at Yogyakarta Special Local and website of Directorate General of Public Budget Indonesia (http://djpk.depkeu.go.id). The data is Financial Statements District and Municipalities of Yogyakarta Special Local. Population is general area consist of above object. The subjects have certain qualities and characteristics to makes a conclusion (Sugiyono, 2011). The population is whole district and city in Yogyakarta Special Local which consists of Yogyakarta City, Sleman, Bantul, Kulon Progo, Gunung Kidul. Samples were obtained from the financial statements of district and city budget in Yogyakarta for period 2004 - 2013. The relationship between the variables can be described in conceptual framework below.

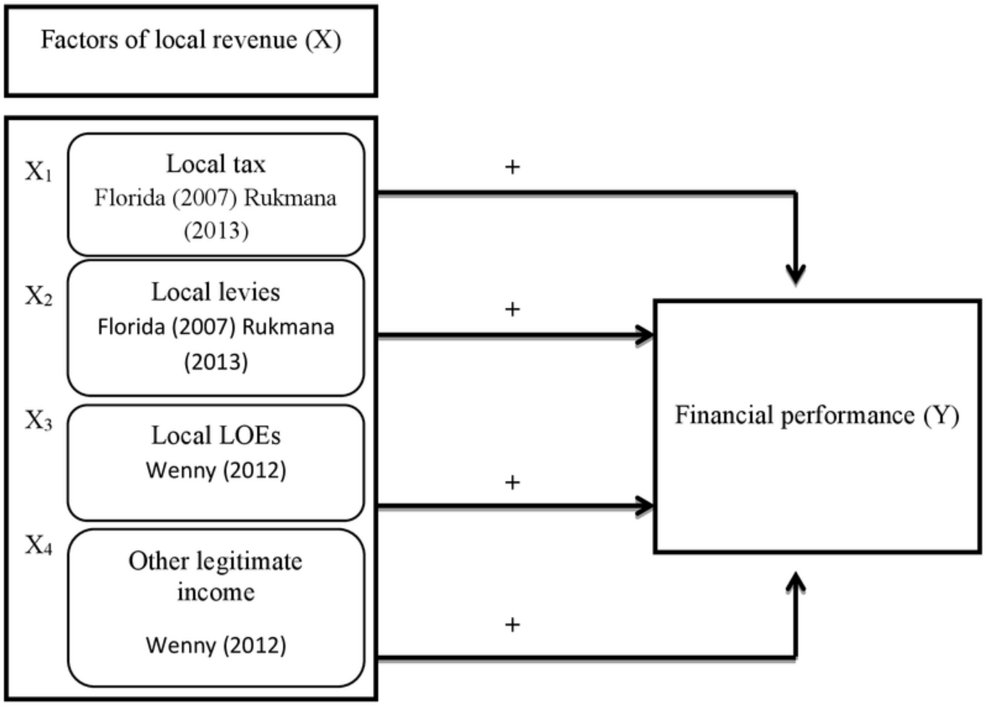


Figure 1. Research model

RESEARCH RESULTS

This study examined the simultaneous effect of local taxes, levies, LOEs profit, other legitimate local revenues and local revenues on local government financial performance. Results show that not all independent variables have significant effect on local of financial performance.

A. Overview of Research Object

Yogyakarta Special Local (DIY) is one of 34 provinces in Indonesia with one city and four districts. They are Yogyakarta City, Sleman District, Bantul District, Kulon Progo District, and Gunung Kidul District. All cities and districts have optimal government by issuing financial statements for each local. The aim is to support the performance of districts and cities in Yogyakarta as an evaluation to improve performance. This study purpose is to examine the effect of local revenue factors on financial performance of District and City's in Yogyakarta. Secondary data is obtained from the CPC, DPKAD, and (http://djpk.depkeu.go.id) in Yogyakarta Special Local. Data consist of Financial Statements of District and City in Yogyakarta Special Local

B. Descriptive statistical

Descriptive statistic describes sample in a study. They are minimum value, maximum, mean, standard deviation, and variance of variables used in a research study (Simanullang, 2013). Below is descriptive statistics in this study:

Table: 1 Descriptive Statistics

Variables	Minimum	Maximum	Mean	Deviation Standard
Log of Tax	3,37	5,44	4,2742	0,60839
Log of Levies	3,77	4,77	4,3652	0,22351
Log of LOEs profit	3,13	4,19	3,7294	0,26172
Log of Other LR	3,16	5,05	4,2508	0,48355
Financial Performance	0,05	0,41	0,1476	0,09597

All the variables have positive maximum and minimum values. Samples are 50 district and city in Yogyakarta Special Local. The detail descriptions are below.

1. Local tax variable has a minimum value of 3.37, maximum value of 5.44 with average local tax of 4.2742 and standard deviation of 0.60839
2. Local levy variable has a minimum value of 3.77, maximum value of 4.77, with average local of 4.3652 and standard deviation value of 0.22351.
3. LOEs profit variable has minimum value of 3.13, maximum value of 4.19, with average local of 0.26172 and standard deviation of 0.26172.
4. Other legitimate LR variable has a minimum value of 3.16, maximum value of 5.05 with average local tax amounted of 4.2508 and standard deviation value of 0.48355.
5. Financial performance variable has a minimum value of 0.05, maximum value of 0.41 with average local tax of 0.1476 and standard deviation value of 0.09597.

C. Classical Assumption Test

The conditions to test multiple regressions are the data should have classical assumption in order to avoid the classic assumption bias. There are four tests done namely test normality, heteroscedasticity test, autocorrelation test and multicollinearity test (Simanullang, 2013).

1. Normality Test

Normality Test (Kolomogorov t-Smirnov test) is aimed to test normality distribution. F test and t test assumes that residuals value follow a normal distribution. If this assumption is violated, statistical test is not valid for small sample quantities (Ghozali, 2011). Normality test results are below.

Table 2. Normality Test Results

One Kolomogorov-smirnov	*assymp sig (2-tailed)*	Description
Unstandardized Residual	0,326	Data is normal

The data is normal if one sample Kolmogorov-Smirnov has assymp sig (2-tailed)> 0.05. The test results value of 0.326> 0.05. It is concluded that data has normal distribution.

2. Multicollinearity Test

Multicollinearity test is aimed to test correlation between the independent variables. A correlation means a multicollinearity problem. A good regression model should not have multicollinearity (Simanullang, 2013). Data has multicollinearity if tolerance value < 0.10 or equal with VIF (variance inflation factor) < 0.10

Table 3. Multicolinearity test results

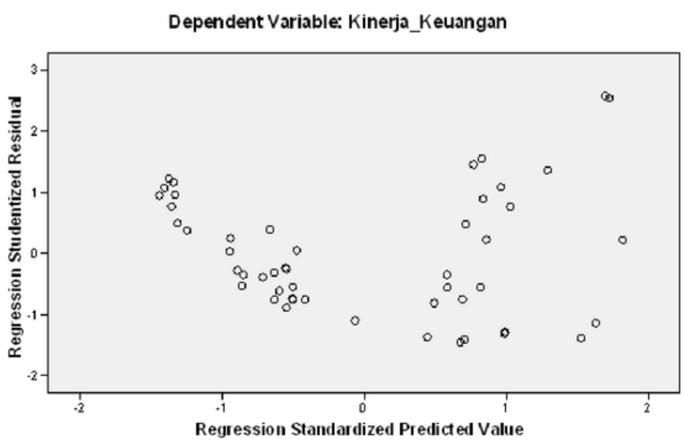
Variable	Tolerance	VIF
Log of Tax	6.337	0.000
Log of Levies	-1.515	0.137
Log of LOEs profit	0.231	0.818
Log of Other LR	-1.067	0.292

Table 3 show that all VIF is smaller than 10 and value of tolerance is smaller than 10%. It means that there is no correlation between the independent variables (independent). It can be stated there is no multicollinearity between independent variables in regression models.

3. Heterokedastisity test

Heteroskedastity is aimed to test residual variance difference from one observation to other. Heteroskedastity indicates that variable does not have same variance for all observations. A good regression model is homoskedastic there is no Heteroskedastity (Nazaruddin 2002).

Figure 4.



From the figure above shows that dots on graph scatter plot spread randomly above and below 0 on Y axis. It shows that there is no heteroskedasticity.

4. Autocorrelation Test

Autocorrelation shows correlation near place or having consequences, namely the confidence interval becomes wider as well as variance and standard error would be underestimated (Simanullang, 2013). Autocorrelation is detected by Durbin - Watson test. Data does not have autocorrelation if Durbin - Watson lies between dU - (4-dU).

Table 4. Durbin-Watson test

R	R Square	Adjusted R Square	Std. error of the estimate	Durbin-Watson
0.872	0.760	0.739	0,04907	1,791

Durbin - Watson value is 1.791 and value of dL and dU with k = 4 and n = 50. Then dL value of 1.42059, dU value of 1.67385, 4-dL value is 2.57941 and 4-dU value is 2 , 32615. DW value of 1,791 is located between dU at 1.67385 and 4-dU value of 2.32615. It shows there is autocorrelation.

D. Hypothesis Test

1. Regression Analysis

Multiple Linear Regression analysis is used to determine the effect of independent variable on dependent variable (Ghozali 2006). Multiple linear regression analysis produces an equation that can be used to estimate or predict the value of dependent variables based on a collection of independent variables.

Table 5. Regression Test Results

Variables	Regression Coefficient	t count	sig	Description
Constant	-0.154	-0,739	0,463	
Log of Tax	0,116	6,337	0,000	Hypothesis is accepted
Log of Levies	-0,077	-1,515	0,137	Hypothesis is rejected
Log of LOEs profit	0,14	0,231	0,188	Hypothesis is rejected
Log of Other LR	-0.030	-1,067	0,292	Hypothesis is rejected
Adjusted R^2	0,739			

Table 4 shows Multiple Linear Regression test result with SPSS V 15. Testing hypotheses can be formulated in a multiple regression model below.

$$Y = -0.154 + 0.166\,X1 - 0.077\,X2 + 0.014\,X3 - 0.030\,X4 + \varepsilon$$

Description:

Y = Local Financial Performance
X1 = Local
X2 = Retribution
X3 = LOEs Profit
X4 = Other legitimate LR
ε = The error level

Regression models of this study can be explained below.

- The regression coefficient of local tax variable (X1) is 0.166 and is positive. It means that every 1% change in local tax variables will improve local government financial performances amounted to 0.166, with assumption the other variables are constant.
- The regression coefficient of levies variable (X2) is -0.077 and is negative. It means that every 1% change in variable levies will change local government financial performances of -0.077, with assumption the other variables are constant.
- The regression coefficient of LOEs profit variable (X3) is 0.014 and positive. It means that every 1% change in variable LOEs profit will improve local government financial performances of 0,014, with assumption the other variables are constant.
- The regression coefficient of other legitimate LR variable (X4) is -0.030 and negative. It means that every 1% change in other legitimate LR will change local government financial performances of -0.030, with assumption the other variables are constant.

2. Results of t test

Value of t test (partial test) is used to determine the partial effect of .independent variables on dependent variable (Ghozali, 2006).

The criteria to accept or reject the hypothesis are below.

a) If the value of t count> t table and sig <alpha, the hypothesis is accepted. It means that independent variable has an effect on dependent variable.
b) If the value of t count< t table and sig >alpha, the hypothesis is rejected. It means that independent variable has no effect on dependent variable.

Test results of regression coefficients with t-test can be explained below

a. First Hypothesis (H1)

Result of t count for local tax variable (X1) is 6.337 and a significance value of 0.000. Because t count (6.337)> t table (1.68) and a significance value (0.000) <alpha (0.05) then the H1 is accepted. It means local tax has positive effect on local government financial performance.

b. Second Hypothesis (H2)

Result of t count for levies variable (X2) is 1.515 and a significance value of 0.137. Because t count (1.515) <t table (1.68) and a significance value (0.137)> alpha (0.05) then the H2 is rejected. It means levies have no effect on local government financial performance.

c. Third Hypothesis (H3)

Result of t count for LOEs profit variable (X3) is 0.231 and a significance value of 0.818. Because t count (0.231) <t table (1.68) and a significance value (0.818)> alpha (0.05) then the H3 is rejected. It means , so the LOE profit has no effect on local government financial performance.

d. Fourth Hypothesis (H4)

Result of t count for other legitimate LR variable (X4) is 1.067 and a significance value of 0.292. Because t count (1.067) <t table (1.68) and a significance value (0.292)>

alpha (0.05) then the H3 is rejected. It means other legitimate LR has no effect on local government financial performance.

f. Fifth Hypothesis (H5)

Fifth hypothesis will examine the simultaneous effect of all independent variables in model on dependent variable (Ghozali 2006).

Table 6. Simultaneous test result

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	,343	4	,086	35,605	,000(a)
	Residual	,108	45	,002		
	Total	,451	49			

Table 6 shows that F count is 35.605 with a significance level of 0.000. Because significance level is smaller than 0.05 (0.000 less than 0.05) and F count larger than F table (35.605 greater than 2.58) H5 is accepted. It means that all variables of local revenue (LR) have positive effect on local government financial performance. Overall results of hypothesis testing can be seen in Table 7 below.

Table 7. Summary of Hypotheses Testing Result

Code	Hypotheses	Results
H_1	Local tax has positive effect on local government financial performance	Accepted
H_2	Local levies has positive effect on local government financial performance	Rejected
H_3	LOEs profit has positive effect on local government financial performance	Rejected
H_4	Other legitimate LR has positive effect on local government financial performance	Rejected
H_5	Local revenue source has revenue positive effect local government financial performance	Accepted

3. The coefficient of determination (R2)

Adjusted R Square of this study is 0.739. It means that local government financial performances (Y) are explained 73.9 percent by independent variables (local taxes, levies, LOEs profit, and other legitimate LR). While rest 26.1% is explained by other variables beyond the model that are not investigated in this study.

DISCUSSION

Hypothesis 1

Hypothesis 1 proves that t count of local (X1) tax variable is 6.337 and a significance value of 0.000. Therefore, Hypothesis 1 is accepted, because t count (6.337)> t table (1.68) and a significance value (0.000) <alpha (0,05). The first hypothesis testing results prove that

local tax has positive effect on local government financial performance. Local tax is a mandatory contribution to locals that are owed by individuals or entities that are enforceable under the Law, without direct rewards and used for purposes for greatest prosperity of local people. It proves that local taxes of City and District in Yogyakarta is highest compared to other factors of local revenues. It shows that local taxes affect on local government financial performance. Greater the local tax obtained shows that local financial performance is, since most of local revenue comes from taxes. This study supports research Florida (2006) and Rukmana (2013) that local taxes have a significant effect on local government financial performance.

Hypothesis 2

Hypothesis 2 test results shows t count of levies variable (X2) is -1.515 and significance value of 0.137. Therefore, hypothesis 2 was rejected, because t count (-1.515) <t table (1.68) and a significance value (0.137)> alpha (0.05). The second test results prove that levies has no effect on local government financial performance. Levies are one important indicator of local income, but in this study proves that levy does not affect on local financial performance. It means that levies collection undertaken by local administration in District and Cities in Yogyakarta still not optimal. Absorption levy less than the maximum is evidenced by phenomena that there are many parking fees and levies at tourist spots are not managed well. Rampant illegal parking also makes levies collection has not been maximized. So that achievements of levies have not been able to affect the local financial performance. The results are consistent with a study done of Rukmana (2013) and Wenny (2012) that levies has no effect on local government financial performance.

Hypothesis 3

Hypothesis 3 test results shows levies variable (X3) is 0.231 and a significance value of 0.818. Therefore, hypothesis 3 is rejected, because t count (-0.231) <t table (1.68) and a significance value (0.818)> alpha (0.05). The test results show that LOEs profit have no effect on local government financial performance. The LOEs are companies established by local governments through property investment of local government. The purpose is to build local companies for development and construction of economic potential in local. Examples of local companies are Water company (PDAM) and Local Development Bank (BPD). This study shows that LOEs profit have no effect on financial performance local. The phenomenon shows that LOEs companies still not able to compete with other private companies, so that local companies cannot maximum in contributions as revenue funds for local. This research is consistent with a study of Florida (2006) which states that LOEs profit has no effect on local government financial performance.

Hypothesis 4

Hypothesis 4 test results shows t count of levies variable (X4) is -1.067 and significant value of 0.192. Therefore, Hypothesis 4 is rejected, because t count (-1.067) <t table (1.68) and a significance value (0.192)> alpha (0.05). Other legitimate LR gives opportunity for local government to carry out activities that produce either material to support, paving, or establish a local policy sector in specific fields. The test results prove that other legitimate LR has no effect on local government financial performance. This is because the absorption of other legitimate LR to local government is still considered less than the maximum. It is due to other revenue derived from the sale of local state-owned, third-party contributions acceptance of compensation for local payment, penalty for delay implementation of work local may not be received each period, as well as the local sale may not be performed every period by local government. This research is consistent with a study of Florida (2006) which states that other legitimate LR does not affect on financial performance.

Hypothesis 5

Testing results shows that F count is 35.605 with a significance level of 0.000. The significance is smaller than 0.05 (0.000 less than 0.05) and F count larger than F table (35.605 greater than 2.58). Therefore, it can be concluded that original income (LR) has positive effect on local government financial performance. The fifth hypothesis testing results prove that local revenue affect on local financial performance. Local revenues are funds source from a local consisting of local tax revenue, local retribution, separated local wealth management and other legitimate local revenues. With maximum absorption of local revenue components in a local this will indicate the financial performance is good, so that local government will seek to improve its financial performance in next year to further maximize the absorption of local revenue. This study results prove that local revenues have a significant effect on local government financial performance. The results are consistent with a study of Florida (2006), Wenny (2012) and Simanullang (2013) which states that local revenue has positive effect on local government financial performance.

CONCLUSION

Based on data analysis, hypothesis testing, and discussion, results obtained in this study indicate that: (1) local taxes has significant and positive effect on local government financial performance; (2) Local levies has no effect on local government financial performance; (3) LOEs profit enterprises have no effect on local government financial performance; (4) Other legitimate LR has no effect on local government financial performance; (5) SOEs revenue has positive and significant effect on local government financial performance.

This study results are expected to provide an overview of performance of public services and local government regarding local revenue on financial performance, specially the district and city in Yogyakarta.

This study certainly still have many shortcomings. Researchers gave suggestions that can be used both by future researchers and local government.

1. Future researchers should increase the samples in order can be used as basic assessment of financial performance local.
2. Research object should be advanced to other provinces in Indonesia.
3. To increase local revenues, local governments, especially in City and District of Yogyakarta Province, should strive to multiply more resources and attention to wealth of local indigenous development and welfare of community.
4. The local governments should seek to reduce reliance on central government to make pure autonomy in various locals, especially in City and District of Yogyakarta Special Local.

Researchers believe that research conducted still has several limitations, They can be explained below.

1. The data is limited to local government of Yogyakarta Province for period 2004-2013.
2. Yogyakarta Province has only four districts and one city so that need for a longer study to fulfill the data.

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