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# DIGGING FOR DOLLARS:

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Finding New Revenues  
For  
Local Public Services

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January, 1986

Dear Brothers and Sisters:

AFSCME members who work for local governments provide services that are vital to every resident of their communities. Critical as they are, these services are in imminent danger of being massively cut back for a second time during the Reagan Administration. The loss of General Revenue Sharing, cuts in federal aid required under the new Gramm-Rudman balanced-budget law and slow economic growth will all put a severe strain on local government revenues over the next few years.

Enacting local tax rate increases, whether to maintain services or to provide decent wage increases, is always politically difficult. Tax revolt is an ever present threat. On the other hand, very few local governments have made full use of their potential revenue resources, instead of resorting to property tax rate increases. As public employees, we can meet the challenge of a new fiscal squeeze on local governments by working with our local officials to assure adequate revenues from sources that have not been tapped up to now.

The International Union's Public Policy Department has prepared this guide to help AFSCME leadership identify areas where additional revenues can, with some diligent work, be found. Many of the suggestions and strategies in this volume have the added bonus of making the overall tax system a fairer one, one in which each person and each business pays a fair share. If our experience in fighting tax revolts has taught us anything, it is that taxes won't be adequate in the long run if they aren't fair, too.

AFSCME, in coalition with groups that depend on the services we provide, can take the lead in making local revenues both fair and adequate to needs. The ammunition you need to take up that challenge can be found in the following pages.

In Solidarity,

WILLIAM LUCY  
International  
Secretary-Treasurer

GERALD W. McENTEE  
International President

**DIGGING FOR DOLLARS:**

**FINDING NEW REVENUES  
FOR  
LOCAL PUBLIC SERVICES**

*Department of Public Policy*

*American Federation of State,  
County and Municipal Employees*

*January 1986*

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# **INTRODUCTION**

## **The Environment**

America's local governments -- cities, counties, towns, and school districts -- continue to face difficult economic times. On the one hand, they seem to confront new and costly problems every day -- homelessness, hospital care for indigents, AIDS, jail overcrowding, and a new baby-boom reaching school age (to name a few). On the other hand, their ability to raise revenues adequate to meeting these new service demands continues to be squeezed by slower growth of property tax bases, the legacy of the Tax Revolt, and growing concerns about their "business climate."

As 1986 begins, local governments may be confronting the most serious threat to their fiscal health to date, in the form of the Gramm-Rudman balanced budget law. Under the Reagan Administration, local governments have already suffered massive cuts in federal assistance for job training, public service employment, compensatory education, etc. With Gramm-Rudman mandating a balanced federal budget by FY 1991 while insulating nearly three-fourths of federal spending from automatic cuts, dozens of grant-in-aid programs benefiting local governments -- including mass transit subsidies, low-income housing, community development block grants, and economic development programs -- face a very real threat of extinction. State governments will experience major cuts, too, and will be hard-pressed to provide more aid to localities and schools.

Perhaps most ominous of all is the fact that the General Revenue Sharing (GRS) program is scheduled to expire at the end of the current federal fiscal year. A mainstay of city and county budgets since 1972, GRS currently provides \$4.2 billion annually that local officials can use with few constraints to meet local needs as they see them. GRS is vital to the well-being of AFSCME members all across America, but reauthorizing it in the Gramm-Rudman environment will be an extremely difficult battle.

All of this is happening in an economy that has just completed its third year of economic recovery, a long upswing by historical standards. The possibility of the start of a new recession sometime in the next two or three years cannot be discounted. An economic downturn would heap further devastation onto state and local governments.

## **Why Public Employees Need to Know More About Local Government Revenues**

The new fiscal squeeze on local governments threatens the jobs, wages and working conditions of all public employees working for them. As these jurisdictions lose revenues or see the rate of revenue growth decline, they may lay-off employees and dig in their heels at the bargaining table. With fewer human and other material resources available, remaining employees will find fulfilling their job responsibilities to be much more difficult and stressful. The public at large will see the quantity and quality of the services they depend on decline.

AFSCME International is working hard to ensure that the federal government honors its commitment to help its state and local partners provide vital public services. In the current climate, however, there is a great deal that AFSCME members can and need to do at the local level to protect their own interests. With federal and state aid to local governments coming under pressure, it is more vital than ever that local officials squeeze every possible drop of revenues out of their existing tax bases. Local AFSCME leaders have a legitimate and important role to play in working with public officials to ensure an adequate revenue base for local services.

In the coming period, these efforts will have to become a major activity for AFSCME at the city and county level. By now, most local governments have taken the easy measures available to raise revenues and reduce expenses. The steps that are left are generally longer-term, involving such things as overhauling, property tax assessment practices and getting state legislatures to authorize new local taxes. Because they take time to show results, we can't wait until we're at the bargaining table to urge them on management as a way of funding our contract demands. We're going to have to be much more involved in an ongoing way with the adequacy of the local tax base, just as auto and steelworkers have had to become much more involved in issues affecting the economic health of their industries.

## **Building Coalitions for Fair and Adequate Taxes**

AFSCME members have an obvious interest in seeing to it that local government revenues are adequate. However, if we put just as much emphasis on making sure local taxes are fair and evenhandedly-enforced, then other taxpayers and groups depending on local services will be our natural allies. Every time a profitable hotel gets assessed below its true value, small businesses and homeowners (including AFSCME members!) have to pay higher property taxes than is really necessary. Every unjustified exemption put into a local sales tax base means that revenues are being lost that could fund needed services for the elderly. It's important to constantly keep in mind that every service we provide is vital to some group of people. If we put the emphasis on the need for revenues adequate to meeting service demands, not AFSCME demands, we're much more likely to get their support. The general public's perception that this is what AFSCME cares about will be much enhanced if we take the lead and work on this issue constantly, not just when contract negotiations are approaching.

## **The Purpose of This Report**

The major purpose of this guide is to equip AFSCME leaders with the basic information they will need to work with local tax reform coalitions, service recipient groups, and public officials, to achieve fair and adequate revenue systems:

- Chapter I focuses on the property tax, the major source of revenue for local governments in the U.S. It is here that the greatest potential lies to increase revenues and significantly enhance the fairness of the tax at the same time. The keys to doing this are improving the process by which taxable property values are set and scaling back unjustified tax abatements for businesses.
- Chapters II and III focus on the potential for raising additional local revenues from income, sales, and excise taxes. In most cases, achieving this is a longer-run goal, requiring state legislative authority to levy the tax. For this reason, the information presented is weighted toward the pro and con arguments likely to be heard in the legislative debate.
- Chapter IV discusses how to raise additional revenues from user fees. It shows that although user fees often have a bad image, they can be appropriate in many circumstances.
- Chapter V has a somewhat different focus. It is intended to provide AFSCME negotiators with information they can use to evaluate local management's revenue estimates for the revenue sources discussed in Chapters I-IV. When confronted with claims that available revenues will not support contract demands, these five chapters together will help negotiators go on the offensive. You will be better equipped both to challenge management's revenue estimates and to recommend new revenue sources it may be failing to tap.

## **CHAPTER I**

# **THE PROPERTY TAX**

The property tax is the most important source of local revenue for cities, counties, and school districts. Property taxes provide 28 percent of all local government revenues and about half -- 47 percent -- of the revenues they raise themselves. As state and federal funding for local government shrinks, the property tax will become even more important as a financial mainstay of the local government.

Unfortunately, the property tax is also the most unpopular of taxes. The threat of tax revolt will make it hard for local governments and school districts to raise property tax rates to help pay for services.

Therefore, it is of the greatest importance that jurisdictions get the most revenue they can out of each dollar of property tax base. Local governments can make their property tax systems more effective by improving their administration of the tax and by restricting their use of tax abatements. The property tax can be made more acceptable by providing tax relief to the needy and by improving public understanding of how the tax works. This chapter is devoted to these topics: how the property tax works, and how local governments can improve it.

## *HOW THE PROPERTY TAX WORKS*

The property tax is a local tax, collected by cities, counties, school districts, and special districts. It is levied primarily on land and buildings. As with all taxes, the total amount of revenue a city or county gets from its property tax comes from multiplying the property tax rate by the tax base.

### **The Tax Base**

The tax base is made up of the assessed value of all the property within the jurisdiction. The tax base is calculated in the following manner:

**Appraisal** -- Those of us who own homes know how the property tax works: an assessor (a locally elected or appointed official) appraises every piece of property within a city or county and decides what the market value of that property is. For homes; is usually based on the sale price of other similar houses. Business property is appraised on a basis of how much income it produces for its owner, or how much it would cost to replace the plant or establishment on the property.

**Market vs. Assessed Value** -- The assessor decides on the market value (sometimes referred to as the "true cash value") of each property in a city. However, the property tax is not levied on the entire market value. The state legislature decides what percentage of property local governments can tax. In some states, the portion of market value that can legally be taxed (called the "assessment ratio") is 100%; in others, 50% or 80% or whatever the legislature chooses to set it at. The value of that portion of property liable to taxation is called the "assessed value" of the property. The assessed value of property makes up a city's property tax base.\*\*

Why not tax the entire value of property? Two explanations are commonly offered. For one thing, partial assessment ratios are thought to make the tax more acceptable. People won't mind the tax so much if they think they are only being taxed on a portion of their property. Another reason is that partial assessments can hide assessors' errors. If all properties were assessed at 100 percent, it would be easy for taxpayers to find sales prices on nearby houses comparable to their own. This information would provide the basis for assessment appeals, which assessors obviously want to avoid.

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\*For tax purposes, property is divided into two categories: "real" and "personal." Real property is defined as land and buildings. Personal property is normally defined as business equipment and inventory. This is called "tangible" personal property. Some states allow personal property taxes to be levied on "intangible" personal property: stocks, bonds and the like.

\*\*Six states allow local governments to determine their own assessment ratio: Mississippi, New Hampshire, New Jersey, Pennsylvania, Rhode Island, and South Dakota.

**Classified Assessment Ratios** -- Some states allow "classified" assessment ratios. In a classified system, different assessment ratios and tax rates are levied on different types of property. In other words, property classified as "residential" may be assessed at 30%, "business property" at 50%, "agricultural property" at 20%, and so forth. Currently, seventeen states allow classified assessments. One state, Minnesota, has over 20 separate classes of property.

**Appeals** -- If a taxpayer thinks the assessor is wrong about the value of the property, he or she may appeal the assessor's decision to a local tax review board. If the issue cannot be settled locally, it may go to a state board, and from there to the courts. The appeal procedure varies from state to state.

**Frequency of Assessment** -- Property is not generally reassessed annually. In some places, reassessment can occur only upon sale of the property. In some locations, the assessors may assign a property value assessment using an inflation adjustment.

## **The Tax Rate**

**State or Local Property Tax Limitations** -- Local governments are often constrained in setting tax rates by local or state laws that prevent taxes from rising above a certain level. The most famous property tax limit, California's Proposition 13, limits the property tax to one percent of market value and prohibits more than a 2% increase in any given year. Iowa has a different approach: the same tax rate limit applies to all 952 municipalities. As of 1982, 40 out of the 50 states had statewide property tax limitations. Many jurisdictions adopt special limits of their own.

Even the few jurisdictions that are free of property tax rate limitations hesitate to raise their tax rate. All local governments live in fear of property tax revolts. Fear of tax revolt effectively restrains most jurisdictions from increasing their property tax rates significantly. The major goal of the second part of this chapter is to layout some ways of raising property tax revenues that do not involve increasing rates.

**Calculating the Rate** -- The city officials decide how much money will be needed to cover local expenditures in a given year. After figuring out what expenditures can be covered by revenue sources other than the property tax, they divide the remaining expenditures by the total assessed value to come up with a tax rate:

$$\frac{\text{municipal budget not funded by other revenues}}{\text{assessed value of property}} = \text{Tax Rate}$$

The tax rate is commonly described as a "millage" rate, which means tax dollar levied per \$1000 of assessed valuation.

**The Tax Bill**

You will recall that four forms of local government levy property taxes: counties, cities, special districts\* and school districts. Any one homeowner, may pay annual property taxes to a local school district, town, county, and maybe even local water or sewer district all at the same time.

Example -- In Town A lives Mrs. Smith, whose home is worth \$40,000. The assessment ratio in her state is set at 50%. Therefore, the assessed value of her property is \$20,000.

Town A levies a property tax of 1.0%. The school district levies a tax of 2.0%. The county tax is 1.0%, and the water district tax is .35%.

Mrs. Smith's tax rate is the sum of all property taxes levied upon her home:

$$1.0\% + .2.0\% + 1.0\% + .35\% = 3.35\%$$

Her tax bill is calculated by multiplying the assessed value by -the tax rate:

\$20,000	X	3.35	=	\$670.00
(assessed value)		(tax rate)		(tax bill)

Her millage rate, or tax dollars per \$1000 of assessed valuation, is 33.5 mills:

$$33.5 \times 20 = \$670$$

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 \*Special districts are used in many places to provide a specific service in a geographical area that doesn't correspond to any one county or city. Common examples are water, sewer, and fire districts.

**"Effective" and "Nominal" Tax Rates**

State law may require cities to have a certain assessment ratio, but most states don't enforce their property tax legislation. Therefore, the assessment ratio may vary significantly from town to town. A taxpayer living in a town with a 100% assessment ratio and a tax rate of 20 mills pays exactly the same amount as a taxpayer in a town with a 50% assessment ratio and a tax rate of 40 mills. The nominal tax rate (tax rate in name only) of one town may be much lower than another, but its effective (real) tax rate may be much higher if its assessment ratio is higher.

**Example** -- Town A, where Mrs. Smith lives, has an assessment ratio of 50% and a nominal property tax rate of 3.35%. Town B, where Mr. Jones lives and owns a house worth the same as Mrs. Smith's, assesses residential property at 80%, but has a nominal tax rate of 2.75%. Who pays higher taxes?

The effective or real tax rate is calculated by multiplying the nominal tax rate by the assessment ratio:

	<u>Nominal Tax</u>		<u>Assessed Ratio</u>		<u>Effective Tax</u>
Town A	.0335	X	.50	=	.0168
Town B	.0275	X	.80	=	.0220

Mr. Jones, who pays a higher effective tax rate on his \$40,000 home in Town B than does Mrs. Smith in Town A, faces an annual tax bill of \$880, or \$110 more than Mrs. Smith. While his mayor may boast Town B is a better place for people to live than Town A because of lower tax rates, in reality, Town B has the higher tax rate.

	<u>Nominal Tax Rate</u>		<u>Assessed Value</u>		<u>Tax Bill</u>
Mrs. Smith's Tax Bill (Town A)	3.35%	X	20,000	=	\$670
Mr. Jones' Tax Bill (Town B)	2.75%	X	32,000	=	\$880

## *PLUGGING THE LEAKS IN YOUR PROPERTY TAX BASE*

Local governments usually fall far short of tapping their property tax bases to the fullest extent possible. This is because of assessment practices that fail to keep assessed values in line with market values, poor enforcement against tax delinquents, and various types of partial tax exemptions granted to businesses in an effort to promote the local "business climate." In addition, much property in any jurisdiction is tax exempt because it is owned by government or charitable groups. A combination of these factors makes most property tax systems "leak" revenues badly.

Local governments can increase their property tax revenues and improve the equity of their tax systems by improving tax administration, and by restricting tax exemptions for businesses and properties owned by tax exempt organizations. This can work to improve the system, boost funds and forestall tax revolts.

### **Improving Property Tax Administration**

Poor administration of the property tax is the biggest problem of the system. Most cities lose thousands of tax dollars because of local assessment ratios set well below the state legal limit; infrequent reappraisal that fails to capture increases in value of local property; and tax evasion. Not only does this drain local coffers of badly needed funds, but it can be a major cause of tax revolt. Residents and businesses alike will revolt if poor tax administration makes them think the property tax system is unfair or even corrupt.

**Equalizing Assessment** -- Equalizing sounds like a made-up word, but it is of major importance in property tax vocabulary. Assessments should be equal so that everyone pays the same tax. They should be "equalized" at the legal assessment level. Perhaps the major leak in the property tax base stems from unequal assessment as a result of:

- Setting the local assessment ratio below that of the state allowed assessment level.
- Infrequent reappraisal of property.

**Under-Assessing** -- As explained above, states set assessment ratios at less than 100% because they believe it makes the property tax more acceptable. Many local governments set a local assessment ratio at less than the state's legal ratio for the same reason. This leads to inequalities in taxation among towns, which may be a problem to the state in allocating school aid.

More importantly, it means many jurisdictions are losing valuable property tax dollars.

If the state allows cities to tax property assessed at 50% of market value, but your own town taxes at 25% of market value, a substantial portion of property tax revenue may be leaking out. It is of utmost importance that cities fully utilize their own resources as federal support declines. The common practice of underassessing must be changed if local public services are to be continued in the tough times ahead.

Local public officials may fear that raising the assessment ratios will mean skyrocketing property tax bills and local tax revolt. It doesn't have to. Tax rate cuts accompanying an increase in the assessment ratio can keep tax bills level and gain political mileage:

**Example** -- Mrs. Smith, in Town A, has an assessment ratio of 50%. As described earlier, Mrs. Smith, therefore, pays her property tax rate of 3.35% on \$20,000 of her \$40,000 home. She pays \$670 annually in property tax.

Let's say that Town A decides to raise its property tax assessment ratio to the state legal assessment level of 80%. At an 80% assessment ratio, Mrs. Smith pays taxes on \$32,000 of her \$40,000 home. Town A can cut her tax rate to 2.09% to collect the same \$670 in tax revenue:

$$\frac{\$670}{32,000} = 2.09$$

Everyone benefits. The town has increased the efficiency and honesty of its property tax system. In the future, taxpayers will be more agreeable to maintaining their tax rate, and perhaps even to increases as necessary, because their tax rate has been greatly reduced.

**Infrequent Assessment** -- Irregular reappraisal of property leads to unequal assessment ratios within a jurisdiction. This is an especially serious problem which causes revenue loss and often a tax revolt.

Most jurisdictions do not reappraise property regularly. There are two primary reasons for this:

- Typically, assessors' offices are understaffed and overworked. They simply lack the staff and other resources necessary for regular updating of the value of their property tax base.
- Local officials fear taxpayers will revolt against the property tax if they see regular, inflation-driven increases in their tax bill as a result of annual reappraisal.

Irregular reappraisal leads to unequal assessment ratios throughout a jurisdiction. Assessments on older homes and businesses in many sites do not reflect increases or decreases in market value. Therefore, people are not being taxed equally. Homes and businesses in areas where property values have fallen, such as central city areas, may be paying more than their fair share if their appraisals do not reflect declining market values. On the other hand, the local government may be losing thousands and thousands of dollars in property tax revenues if old property appraisals have not been updated to reflect increases in market value.

**Example** -- Mrs. May lives at the edge of town. Her home was worth \$40,000 when it was purchased in 1978. The assessment ratio is 50%. Therefore, Mrs. May pays tax on \$20,000 of her home's value.

However, Mrs. May's home has increased in value since 1978. Today it is worth \$60,000. Since her assessed value remains \$20,000, her assessment ratio has, in essence, declined to 33% -- one third, instead of one half, of true cash value.

Mrs. May, therefore, pays an "effective" or actual tax rate of less than other people, although her nominal tax rate (tax rate in name only) of three percent is the same as everyone else.

<u>Nominal Tax Rate</u>		<u>Assessment Ratio</u>		<u>Effective Tax Rate</u>
.03	X	.50	=	1.5
.03	X	.33	=	1.0

In one jurisdiction, everyone should pay taxes at the same effective rate. It is most unfair to have different effective tax rates in different neighborhoods. It also means the city is losing lots of property tax revenues.

**Business Tax Revolt: A Hidden Problem of Poor Assessment Practices**

Businesses have the legal and financial resources to exploit irregularities in assessment practices. Although you don't read much about it, this is a growing problem. Some consulting firms specialize in helping businesses to reduce their tax burden in this way. Business tax revolts are double problems: they cut revenues to the city, and by shifting the tax burden to homeowners and renters, they can cause residential tax revolt.

**Example** -- Let's say that Sam's Supermarket in Mayberry City is assessed at 50% of true market value. The assessment ratio is set by the state legislature. Sam has just been appraised. His property tax bill has gone up.

However, Sam knows that most of the supermarkets in town haven't been reappraised for five years. The market value for these properties recorded on the city books is, therefore, about 80% of their current true market value. Sam hires the XYZ Consulting Company to come up with figures confirming his lunch. XYZ finds that, indeed, because of inflation and appreciation of commercial property throughout the city, only 80% of true cash value is on the city books for most supermarkets. Therefore, their average assessment ratio (half of 80%) is only 40%. Sam sues the city claiming a 50% ratio on his property tax is discriminatory. The city has a choice: lower Sam's assessment ratio or reassess the other fifty supermarkets in town. Cities often find it easier or cheaper to simply lower Sam's assessment.

Another tactic in the Business Tax Revolt is to challenge the standards by which industrial and commercial property is valued. In some places, particularly "rustbelt" areas where plants are closing and property values are declining, big businesses are trying to drastically reduce their property assessments. Playing on the lack of technical expertise of small towns, companies are seeking reductions on industrial properties in the millions of dollars. The state can be of tremendous assistance in this situation. Perhaps your legislator would help introduce state legislation to help protect towns from business tax revolt. In some states, all manufacturing property or all businesses over a certain size are assessed by a state assessment office, to insure uniformity.

## Suggested Actions

- Suggest that your city dedicate funds for improving the property tax administration. Extra staff, extra publications, and computers can go far toward improving assessment practices of your jurisdiction. Frequently, revenues recovered through improved property tax administration pay for the improvements.
- Find out about assessment practices in your jurisdiction.
  1. How frequently is property reappraised?
  2. Does the assessor believe the "average" assessment ratio is below the state mandated ratio? In other words, have property values increased, but reassessment not kept up?
  3. Are assessments uniform throughout the jurisdiction? How long has it been since central city locations have been reassessed? Fringe areas?
- Find out how much money your local government is losing through poor assessment practices. Your assessor may tell you that the city's "average" assessment ratio is lower than the legal ratio. You can figure out how much money your city or county is losing by:
  1. Multiply the "average" assessment ratio by the true cash value of the city or county property tax base (ask the assessor for the total true cash value of property). This will give you the total assessed value of property in your jurisdiction.
  2. Multiply the total assessed value of property by the tax rate. This will tell you how much property tax revenue the city is bringing in.
  3. Now repeat those steps using the "legal" assessment ratio. Subtract this second revenue figure, calculated using the legal assessment ratio. This will tell you how much money your city is losing through poor assessment practices.
- Cities and counties can improve assessment practices by publishing full information on property assessment practices and appeals procedures. Residents will feel their tax burden is more fair if they can challenge assessments easily. This will make the system more accurate and forestall tax revolt.

## Suggested Actions

- Lobby your state legislator for state aid to improve local assessment practices. The state can provide services of great value to local assessors. The state can keep detailed databases of property assessments and hire expert appraisers to offer technical assistance to communities throughout the state. State supervision to the property tax in one central agency can greatly increase equity and efficiency and at a minimal cost. The state can be especially helpful in forestalling business tax revolt.

### **Property Tax Abatements for Business**

Property tax abatements are partial or complete exemptions from property tax grant to businesses. Abatements are granted to encourage business to locate or expand within the boundaries of a city or county. This is another important leak in the property tax system, because abatements don't really work to encourage economic development.

**Types of Business Abatements** -- There are a wide variety of ways that local governments may give property tax breaks to business. Some of the common ones are:

- Outright exemption from the property tax for a period of years;
- Exemption of certain types of property from taxation, such as machinery and equipment;
- Lower assessment ratios than residential or other types of property;
- Lower tax rates than residential or other types of property; and
- "Tax Increment Financing" that dedicates a portion of the tax collected in a particular area to business improvements.

Some of these reductions might be required by state law, but others may be under local control. Whatever the mechanism, the bottom line is the same: businesses do not carry their fair share of the cost of local services.

**Do Abatements Work?** -- Businesses like abatements because they are a "free gift" from local government. Politicians like abatements because they allow City Hall to take credit for economic development. In truth, abatements are too small to be effective in encouraging economic development.

- All types of state and local taxes combined typically make up only 2 to 3% of total business costs.
- Differences in local taxes from place to place make up an even tinier fraction of that 2 to 3%.
- Local property tax payments are deductible from federal income taxes. Corporations face a federal income tax rate of 46%, so the cost of local taxes is automatically cut almost in half by the federal deduction.
- Compared to such significant cost factors as the cost of energy and labor and access to markets and transportation networks, tax abatements are just too small to influence business decisions.

**Consequences of Abatements** -- Abatements are not very useful in attracting business. Their primary impact is on the city. They drain a jurisdiction of funds badly needed for public services, including services vital to business -- police and fire protection, waste removal, etc. They shift the burden of the property tax onto homeowners and renters. This growing inequity can spur tax revolt. In these times of declining federal support, it is very important for local government to stem the loss of property tax revenues from tax abatements and exemptions given to business.

## Suggested Actions

- Find out how many property tax abatements your jurisdiction has outstanding. Be sure you keep asking question until you are sure you have found out about all of the types of business exemptions and abatements that might have been used.
- Ask hard questions about whether the abatements are worth the cost. Has employment in the community really increased because of the abatements? If there has been some increase, at what cost per job? Were promises made by the businesses to get special abatements? Were they kept?

- Find out how many of the abatements are required by state law and how many are under local control. Work with your state legislator or local official as appropriate.
- Ask your employer to compile a "tax expenditure budget" to determine the cost of business tax abatements. Many states compile the worth of their "hidden expenditures" (tax exemptions) in their tax expenditure budget. Local governments can also benefit from a tax expenditure budget. If your employer will not compile such a document, you can make a tax expenditure budget yourself with very little trouble. Ask your assessor for the following information:
  1. Total assessed value of property tax abatements in the city.
  2. Property tax mills levied by your city.
  3. Divide the total assessed value of the abatements by \$1000 and multiply by the millage rate. This will give you the amount of tax revenue foregone by granting property tax abatements.

Your Tax Expenditure Budget may be used to convince local officials to make better use of their existing property tax base.

### Tax Exempt Property

Some properties are tax-exempt by law: for example, properties belonging to the federal government, state government, hospitals and churches. Many tax-exempt organizations buy and hold land for later development. The city then loses the tax revenue it would otherwise have gotten on that property.

It is surprising to learn how much local land is exempt from taxation. For example, the biggest land owner in New York City is the Catholic Church! Your city can protect its existing tax base by negotiating tax settlements with tax-exempt institutions that seek to buy and hold land for later development.

Many local governments can pass laws governing the spread of tax-exempt property. In New York, for instance, the Catholic Church and other tax-exempt organizations do pay property tax on properties not used for religious purposes. If your state restricts this type of local control, the city can build a stipulation for negotiated tax settlements into the "permitting process." A city permit must be obtained for any land clearing or construction. Special permits must be obtained for a variety of construction-related activities. At this point, a local government can make it easy or hard for an organization to carry out its development plans. This provides the "leverage" to encourage a negotiated tax settlement. Such a settlement can require a tax exempt organization to make payments in lieu of (in place of) taxes to help local government pay the costs of servicing the land. Other techniques of dealing with tax-exempt property are listed below.

At first glance this may seem like harsh treatment of charitable or religious organizations. But some related precedents do exist. In the federal income tax, for example, a tax-exempt organization must pay taxes on any activities that are not related to its tax exempt (i.e., charitable, religious, educational) purpose. To take another example, the federal government as a landowner makes payments-in-lieu-of-taxes to counties and other units of local government. Tax-exempt organizations draw on city services just as for-profit organizations do, and it is proper that they help to pay for them.

## Suggested Actions

- Impose user charges or service fees for police and fire protection and other civic services.
- Institute regular review of exemption procedures.
- Regularly assess tax exempt property
- Compile a list of tax exempt property by taxing jurisdiction and publish findings of compilations.
- Limit number of acres qualifying for exemption.
- Limit the dollar value of property that can be exempt.
- Narrow the types of property granted exemptions, (e.g., only property related to exempt purpose or only property in certain geographic areas).
- Clarify state exemption provisions and then enforce them.
- Negotiate settlements for payments "in lieu" of taxes.

## Discouraging Property Tax Delinquency

Most cities receive less of their property tax than they could because of the failure to collect delinquent taxes. Further, jurisdictions may be unintentionally giving taxpayers an incentive to pay their taxes late because of below-market interest charged on late taxes, and because of the absence of additional penalties for delinquency.

**Incentives for Paying Taxes Late** -- Below market interest rates and lack of penalties can encourage delinquency. For example, several counties in Wisconsin charge 1% per month interest (12% per year) and no penalty for late taxes. A savvy, beat-the-system type of taxpayer would calculate that he or she would do better paying of an 18% interest rate VISA balance than paying the property tax on time. Tardiness in payment can easily develop into permanent delinquency.

**Failure to Collect Delinquent Taxes** -- The tax revenue portion of the budget will often contain an entry for uncollectable taxes. If this does not appear, the jurisdiction may have reduced its revenue estimate by some percent which it does not expect to collect. A collection rate of 100% may be an unrealistic target. A collection rate of even 95%, however, is quite inefficient. A city with property tax revenues of \$25 million and a collection rate of 95% is losing \$1,315,790 per year. That million dollars -- or even half of it -- could go a long way toward improving funds for public services. If property taxes are not paid, the city has a right to foreclose on the property and sell it for back taxes. Cities are notoriously slow on their foreclosure procedures, in part because of understaffed and overworked tax collection offices.

## Suggested Actions

- Check the level of interest rates payable on delinquent taxes. They should at least be equal to prevailing consumer interest rates, and should "float," that is adjust, with changes in that rate. A penalty, in addition to interest, should also be charged on late tax payments. If the interest and/or penalty are set by state law, you may have to enlist the help of your legislator. To avoid hardship situations or undue harsh effect, a provision could be made for waiver of the penalty.
- Revenue flow can be increased by media campaigns to publicize the names of delinquent taxpayers. Wealthy corporate and individual taxpayers may be embarrassed into compliance. Exceptions can be made for people who write or file a form certifying a reasonable excuse for delinquency such as a loss of job. This tactic can be an inexpensive and effective way to encourage payment of delinquent taxes.
- Cities can improve their property tax revenues by speeding up foreclosure procedures on certain classes of property: particularly, vacant and business properties. Cities hesitate to foreclose on homes or apartment buildings because of the people in them and because of the difficulty in reselling the properties. However, a city can create different types of foreclosure practices on different classes of property. The extra revenue generated by prompt foreclosure and sale of vacant or business property can offset leniency toward residential property. It can also encourage businesses throughout the city to pay their tax bills on all their properties promptly.

## *MAKING THE PROPERTY TAX EASIER TO BEAR*

Local governments may be reluctant to improve their property tax system because they think changes will trigger tax revolt. There are a number of ways to increase citizen satisfaction with the tax while working to plug the leaks and improve fairness. Some tactics, such as equalizing assessments at the maximum assessment level while cutting tax rates, are described above. Several other strategies are presented below.

### **Reducing the Burden of Property Taxes**

People dislike the property tax and oppose increases in the tax because it is regressive: it is levied on shelter, a basic necessity of life, without regard for ability to pay. The inflation-driven jump in property values, and thus taxes, in the last decade was particularly hard for those on fixed incomes, the elderly and the poor. The regressive nature of the property tax is an important element in tax revolts.

As localities move to equalize assessment practices, some households that have benefited in the past from assessments that were too low will face an increase in taxes. States and cities can ease the regressive impact of the property tax, however, through selective tax exemptions to the needy. The two most common types of property tax relief are called "circuit breakers" and "homestead exemptions." Circuit breakers are provided by the state. Homestead exemptions may be administered and financed locally.

**Circuit Breakers** -- Circuit breakers are credits against state income taxes for property tax payments by the elderly and/or low and moderate-income families. A property tax "circuit breaker" protects a family against property tax "overload" in the same way that an electrical circuit breaker protects an electrical line against an overload of current. Property tax circuit breakers prevent the tax from exceeding a certain percentage of an owner's income.

**Homestead exemptions** -- Homestead exemptions reduce the assessment ratio owner-occupied property for the elderly, the poor, for veterans -- or, in some cases, for everybody. In many cases, homestead exemptions are structured so that, say, the first \$20,000 of the house's assessed value is not taxed.

**Relief vs. Revenues** -- At first glance, offering residential property tax relief seems like a way to lose, rather than gain revenues. One key is targeting. If every owner-occupied home receives a homestead exemption, some relief is going to those who really don't need it. If homestead exemptions can be targeted (entirely or mostly) toward the needy, or if circuit breakers can be substituted for across-the-board type measures, then more relief can be targeted with less loss of revenue.

Another key is fairness. If the property tax is seen as fair and non-regressive it can be easier for the public to accept rate increases when there is real need for them.

## Suggested Actions

- Find out whether your state offers a circuit breaker program.
  1. If not, work with your state legislator to initiate such a program.
  2. Check to see if the existing circuit breaker program includes all low income groups, or if it is just for special groups. The relief should be extended to all needy citizens.
- Find out whether your city or county offers homestead exemptions.
  1. If not, consider proposing a homestead exemption for needy groups not covered by a state circuit breaker. The cost may be small and the paybacks great in terms of perceived fairness.
  2. Are existing homestead exemptions limited to needy groups, or does everyone get them? Not everyone needs property tax relief. Working with local officials to target property tax relief may save your local government lots of money.
  3. Find out if your local tax relief duplicates state relief. If relief programs were enacted at different times, this can happen. Ask local officials for a review of total relief granted, by type of recipient.

### **Improving Collection of the Property Tax**

Issuing property tax bills monthly or quarterly can help restrain taxpayer resentment of the tax. Most jurisdictions collect their property taxes only once or twice a year. We all tend to be radically aware of the annual need to hand \$500 or so, or half of that twice a year, to the local government. Even people with mortgages who pay their property tax monthly through an "escrow" account at the bank receive a copy of the property tax bill. They, too, are aware of the upward pressure the annual or semi-annual tax bill puts on their monthly mortgage payments.

In contrast, income taxes for most of us just vanish from our pay checks before we really see them. Sales taxes, extracted bit by bit at the cash register, are equally invisible. Our most distressing reminder of the cost of civic responsibility comes in the property tax bill. This is why tax revolts, when they have been successful, have been directed against the property tax.

## Suggested Actions

- Find out about the frequency of property tax collections in your jurisdiction.
- Suggest more frequent collection procedures as part of the general improvement of the Assessors' office. Part of the money dedicated to improving assessment procedures would be well spent on implementing more frequent property tax collections.

### **Promoting Public Understanding**

Tax revolt is fueled by suspicion and distrust. The aura of mystery that surrounds property valuation, assessment and taxation lends itself to suspicion. Tax laws are too often described as too hard for most citizens to understand. Many local officials buy this argument. Too few local governments work to increase taxpayer awareness of their taxes.

Public information and education can go far toward stalling tax revolt. Local newspapers are good forums for tax information and education. So are club meetings, scout meetings, local high school civics classes, union meetings, even church meetings. What is your city and your local doing to educate the public about the how's and why's of local taxes?

## Suggested Actions

- Publish pamphlets describing how the property tax system in your city works.
- Publish names of tax delinquent property owners on a regular basis in your local newspaper.
- Compile a list of tax-exempt properties in your town. Include maps. Estimate revenue foregone. Local newspapers and magazines will welcome this research.
- Compile lists of companies receiving tax abatements in your community, and the assessed value of the abatements. How much tax revenue has been lost to abatements? (Take the figure from your tax expenditure budget.)
- Ask the local newspaper to run a column explaining various important programs and procedures: circuit breakers, assessment procedures, forestalling business tax revolt, etc.

## **CHAPTER II**

# **LOCAL SALES AND INCOME TAXES**

Local sales and income taxes are the next most important source of tax revenue for local governments after property taxes. In fact, since 44 percent of property taxes are used to finance schools, sales and income taxes are much more important in financing general municipal and county services than they might first appear. Overall, local sales and income taxes comprise 14 percent of the general revenues that city and county governments raise themselves. Their share of these "own-source" revenues has been growing in recent years, as public officials have responded to widespread dissatisfaction with the property tax.

This chapter will discuss the ways that local governments can raise additional revenues from local income and sales taxes, differentiating carefully between those localities with taxing authority and those without. The possibility of levying new taxes is likely to provoke heated debate about the advantages and drawbacks of these two taxes. The second half of this chapter is devoted to setting out the arguments that are most likely to be heard.

RAISING MORE REVENUES FROM LOCAL SALES AND INCOME TAXES

The single most important thing to know about local sales and income taxes is that local governments can levy them only if state governments authorize it. Although all 50 states allow local governments to levy property taxes\*, at present only 31 states permit local sales taxes and only 13 have authorized local taxes on income. These taxes are frequently limited to only one level of government, generally have rigid rate ceilings, and may even be restricted to specific jurisdictions. There are some distinct geographic differences in the tendency of states to allow local sales and income taxes; perhaps most noteworthy is that none of the six New England states authorize any form of local sales or income tax.

**Where They Have Never Been Authorized**

Where local sales or income taxes have never been authorized, the political barriers to achieving this should not be underestimated. Fear of setting off a tax revolt is always a powerful influence on public officials, and authorizing a new tax is an especially visible action.

Nonetheless, future state legislatures may be more willing to expand the authority of local governments to levy sales and income taxes. There are two major reasons for this:

- With federal aid to states being cut back and states facing growing service demands of their own (e.g. prison costs), they will find it more difficult to continue expanding aid to their local governments. Up to now, states have generally chosen to expand direct aid rather than authorize new local taxes. The new fiscal squeeze on states could reverse this trend.
- State legislators are well aware of the great unpopularity of the property tax. As the fiscal squeeze at the local level grows, they are more likely to realize that homeowner property is bearing about as much of the tax burden as it can and that new taxes are needed.

Clearly, getting states to authorize local sales and income taxes is a long-term strategy -- it will not be a very useful counterargument if management claims inability-to-pay during current negotiations. Nonetheless, AFSCME Councils should stand ready to work with public officials to have such taxes authorized.

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\*As discussed above, however, this authority is often constrained by restrictions on rates, assessment growth, total levy limits, etc.

## Suggested Actions

- Confirm that your local government does not have the authority to levy a local sales or income tax. Find out from your local officials whether there has been any history in your state of trying to have these kinds of taxes authorized. Review this history and discuss whether they would be willing to initiate a campaign to obtain additional taxing authority. Work with your state association of counties, state municipal leagues, other public employee unions, and service recipient groups toward this end.

### **Where They Have Been Authorized but Not Fully Used**

Only in a few instances are 100 percent of the local jurisdictions authorized to levy a sales or income tax actually doing so.\*

The management pleading poverty across the negotiating table from you may be one of those with unused taxing authority. Even if your jurisdiction is levying an authorized tax, it may not be levying it at the maximum authorized rate. Finally, a few states have authorized sales and income taxes only for specific jurisdictions. Even if your jurisdiction is not one of these, it sets a precedent that may allow your elected officials to make a case to the legislature. Again, this has to be viewed as a longer-term strategy.

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\*These figures can be misleading, since in some places only one or two jurisdictions are authorized to levy the tax. For example, only two cities in Minnesota can levy a sales tax and only two in New York an income tax.

## Suggested Actions

- Ask local officials whether they have any authority to raise local sales or income taxes, either by levying a tax they don't currently use or increasing its rate.
- If they could increase the tax, ask if they would be willing to make the case to the public that such an increase is needed. If not, you may have to lead the battle on your own. You will, of course, want to enlist the support of those organizations with an interest in seeing services maintained and improved.
- If your locality does not have authority to levy a sales or income tax, ask local officials if any jurisdictions in your state do. You may be able to use these examples to begin a joint campaign aimed at the legislature to get authority for your city or county, too.

### **Improving the Yield of Existing Local Sales and Income Taxes**

Besides exercising an unused option to levy a tax and moving the rate closer toward its ceiling, there are two other ways to increase the revenue it produces. They are:

- broadening the base of the tax, that is, the type of sales or income that is taxable; and
- improving enforcement of the existing tax.

## Suggested Actions

- In the majority of cases, the base of a local sales or income tax is set by state law. Broadening it in these circumstances is a long run goal requiring a campaign for state legislation. In other cases, there is some local discretion in defining the tax base. In either case, good ways to broaden the tax base include:
  - < For the local income tax: including all forms of income, not just wages. Five of the 13 states with local income taxes tax only wages. Taxing only wages places an unfair share of the tax burden on low and moderate-income families; upper-income families are more likely to have non-wage income from interest, dividends, capital gains and business profits. Setting the local tax owed at a fixed percentage of the state tax owed automatically broadens the base. It also means that if the state acts to broaden its base in the future, the local government reaps a windfall, too.
  - < For the local sales tax: including services in the tax base, particularly those that tend to be purchased more by higher-income people and businesses (e.g., lawyers, accountants, laundry, etc.). Food and medicine should be exempt, however, to avoid over-burdening the poor.
- You should ask local officials and management what they are doing to improve collection of income and sales taxes they are owed. There is particular abuse by merchants in turning in sales taxes, so stepping up enforcement usually pays for itself several times over.
- In the longer run, you may want to work with local officials to have any existing local sales and income taxes converted to "piggy-back" taxes by state law. Under a "piggy-back" tax, the state collects the local government's share of the tax at the same time it collects its share, and then remits it back to the local government. The advantages of this are two-fold: it requires the local government to use the (usually broader) tax base of the state tax, and it saves much of the local government's enforcement costs.

*SHOULD LOCAL SALES AND INCOME TAXES BE MORE WIDELY USED?*

**Advantages of Increasing the Use of Local Sales and Income Taxes**

**Diversification** -- Diversity in and of itself tends to reduce public resentment of local taxes; local tax revolts are most likely to occur where one tax is asked to carry too much of the revenue load (e.g., Massachusetts property taxes prior to Prop. 2-1/2).

**Public Support** -- Polls have repeatedly confirmed that the public dislikes the property tax the most, probably because it is owed regardless of the immediate economic circumstances of the property owner and is billed in one or two large lump sums. Sales taxes tend to be more easily swallowed because they are paid in numerous small installments.

**Progressivity Possible** -- Income taxes can be designed to be progressive, that is, to take a higher share of income as income rises. (Local piggy-back income taxes that are set as a percentage of state income tax liability usually are progressive automatically.) Property taxes, on the other hand, tend to be regressive -- to absorb a greater share of a low-income person's budget than they do of a high-income person's.

**May Be Less Regressive Than Property Taxes** -- Although sales taxes tend to be slightly regressive, they are probably not as regressive as property taxes. Thus, if additional local revenues are needed, increasing sales taxes may still be fairer than increasing property taxes.

**Revenue "Elasticity"**-- Sales and income taxes are much more "elastic" sources of revenue for local governments than are property taxes. This means that they respond more quickly to overall economic conditions. This can be bad if the economy is declining, but it is good if incomes are increasing (due to either real growth or inflation) -- it helps local governments keep up with the rising cost of providing services. Having a mix of property and sales/income taxes thus helps to stabilize local revenues on economic upswings and downswings.

**Getting Non-Residents to Pay** -- Local sales and income taxes can be a good way of obtaining revenue from people who draw on local government services but don't currently pay for them -- especially workers commuting to central cities from suburbs. Commuters may make significant retail purchases near their place of employment, and local income tax revenues are often structured to be divided between the place of work and the jurisdiction of residence.

**Possible Drawbacks of Local Sales and Income Taxes (and Some Ways Around Them)**

**Self-defeating Incentives** -- Local taxes have the potential to affect economic behavior if neighboring jurisdictions levy taxes at lower rates. If shopping patterns shift, for example, this can defeat the purpose of levying a sales tax. The same is true of changes in residence encouraged by the imposition of local income taxes.

Still, this is not a meaningful argument against substituting sales or income tax revenues for property tax revenues; differences in property taxes among jurisdictions create the same incentives. More importantly, this is not likely to be a significant problem given the small differences created by current local sales and income tax rates.

**Widening Fiscal Gaps Between Neighbors** -- Local income and sales taxes can create even greater disparities in revenues among local governments than exist currently with the heavy reliance on the property tax. This is especially true with more and more retail purchases being concentrated at large regional shopping centers. To keep disparities in the quantity and quality of local public services available to their citizens from widening, states will have to target other forms of direct aid even more carefully to distressed communities when they authorize new local taxes.

## **CHAPTER III**

# **LOCAL EXCISE TAXES AND OTHER NON-PROPERTY TAXES**

Most other taxes levied by local governments are excise" taxes that are levied on the consumption of a specific good or service. Some local excise taxes are simply piggy-back versions of familiar state excise taxes. Examples include:

- public utility taxes on gas, electric, and telephone service
- taxes on motor vehicle fuel and the vehicles themselves
- alcoholic beverage taxes
- tobacco taxes
- hotel/motel taxes
- amusement and restaurant meal taxes
- taxes on private parking garage charges
- cable television taxes
- stock and real estate transaction taxes (which, strictly speaking, are transaction rather than excise taxes)

This chapter is modeled after the one preceding it, raising the key issue of taxing authority, and then discussing the pros and cons of raising additional tax revenues from local excise taxes.

## HOW TO RAISE MORE REVENUES FROM OTHER NON-PROPERTY TAXES

As is the case with local sales and income taxes, the ability of cities and counties to levy excise taxes is often highly constrained by state law. For example, none of the New England states allow local governments to levy public utility, motor fuel, alcohol, or tobacco taxes. Still, it is worth asking local officials whether they have any unused authority either to levy the taxes or increase the rates. In general, the potential of these taxes to generate local revenues is largely untapped. It is, therefore, worth beginning to discuss with local officials the possibility of cooperative lobbying campaigns aimed at state legislators for more taxing authority.

### Suggested Actions

- Most of the suggested actions set out in the preceding discussion of local income and sales taxes apply equally here. Generally, if local governments have any authority to levy these types of taxes, they exercise it (although hotel/motel and parking taxes are common exceptions to this). Getting new authority to levy local excise taxes is usually a long-term goal that can only be achieved by a coalition of public officials, service recipients, and public employees working together.
- Like local income and sales taxes, these other non-property taxes are often prime candidates to be structured as piggy-back taxes. The states remit back to localities their share of the revenue collected. Again, this can save localities substantial expenditures that might otherwise be needed to enforce the tax.

*SHOULD LOCAL GOVERNMENTS USE EXCISE TAXES MORE WIDELY?***Disadvantages of Excise Taxes**

**Regressivity** -- Most consumption taxes (including general sales taxes discussed above) are considered to be regressive, imposing a disproportionately great burden on lower-income households. This is especially true when they are levied on basic necessities like electrical and telephone service and gasoline needed to commute to work. Consumption patterns may also contribute. For example, it is probably true that more-educated, upper-income households are increasingly less likely to be tobacco consumers.

The problem of regressivity can sometimes be reduced by putting other policies in place at the same time. For example, an increase in utility taxes could be accompanied by the establishment of "lifeline rates", discounts for a small basic amount of service. Or, if local motor fuel taxes were established, extra effort could be made to hold down public transit fares.

**Self-defeating Incentives** -- As we mentioned in our discussion of the local sales tax, consumption taxes can create an incentive to shift consumption patterns in ways that undercut the goal of generating revenues. For example, differences in state tax rates on alcohol and tobacco have already created a massive bootlegging problem. A hotel/motel tax could encourage travelers to stay in a neighboring jurisdiction that didn't levy the tax, costing the economy more in visitor spending than might be gained from the tax.

At the rates likely to be imposed by local governments, local excise taxes are not likely to have serious incentive problems; differences in the basic cost of the taxed service will almost certainly be much larger to begin with. In the case of a local counterpart to a state excise tax, the locality can rely on the state's enforcement machinery. If some small amount of revenue is lost to bootlegging, this need not be a major concern.

### **Advantages of Local Excise Taxes**

**Equity** -- Excise and related taxes do not have to be regressive. For example, a tax on such luxury-type amusements as theater tickets and cable television service will tend to affect mostly upper-income taxpayers. The same would obviously be true of a tax on stock or real-estate transfers. The form of taxation can also reduce the regressive impact of a tax; for example, a motor vehicle tax based on the value of the car will be less regressive than one based on its weight. Many excise taxes (particularly those on utility-type services\*) are paid in large part by businesses. And if new revenues are needed one way or another, excise taxes may still be less regressive than an increase in some user fees or property taxes.

**Tax Exporting** -- Like sales taxes, many excise taxes may be paid by those who consume city services but don't pay property taxes. Taxing private parking garage services, baseball tickets, and hotel rentals may be a good way of ensuring that commuting workers, suburban sports fans, and visiting business people (respectively) bear some portion of the cost of the police protection and other local services they enjoy during their visits.

**Paying for Social Costs** -- Somewhat related to the tax exporting issue is the issue of social costs. Some excise taxes, especially those on alcohol and tobacco, help to pay for social costs that these forms of consumption generate. Because alcohol and tobacco consumption impose direct costs on local government for medical care in public hospitals and other social services, many people believe it is fair to "charge" for them in this way.

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\*The break-up of AT&T has created both the opportunity and the need for local governments to expand their taxation of telecommunication services. With more private companies competing with local Bell operating companies, cities need to expand their taxation of the former to avoid putting the latter at a competitive disadvantage.

## **CHAPTER IV**

### **USER CHARGES**

"User charges" are payments to a local government made by households or firms in proportion to their actual use of a service or facility provided by that government. Everyday examples include bridge and highway tolls, fees charged for the use of public golf courses, community college tuition, convention center rentals, and public parking garage charges. Gasoline taxes and vehicle registration fees are less obvious examples, but they really belong in the same category because they are related to highway use. We will also include here both fines and fees for business licenses, since they are often intended to offset some of the costs of public health and safety enforcement generated by the growth of economic activity.

User charges taken together are second only to property taxes as a source of own-source revenues for local governments. User charges contributed 22 percent of own-source local government revenues in 1983-84, in contrast to 16 percent generated by all non-property taxes combined. Their importance has grown rapidly in recent years, for two main reasons. First, local governments have consciously tried to make some services more financially self-supporting. Second, local governments have disproportionately increased their provision of services that have traditionally been user charge-financed (e.g., airports and public hospitals).

*WHAT SHOULD BE DONE TO RAISE MORE REVENUES FROM USER CHARGES?*

## Suggested Actions

- **Business-related Fees, Permits, and Licenses** AFSCME should press for a regular review of the whole range of business-related user charges, to make sure they have been increased to keep pace with the cost of providing the related service, inspection, etc. These range from restaurant licenses, to building permits, to fees for city review of construction plans. Ideally, these types of charges should be increased every year. Public officials should be encouraged to examine the budgets of other cities and counties in their states to find out what other services they might be charging for.
- **Sewage, Water, and Solid Refuse Charges** -- These services should generally be self-supporting; their benefits are easily measured and assigned. Fees should cover not only current operating costs, but the cost of paying interest and principal on debt incurred to build plant and equipment as well. Local government budgets should be examined carefully to ensure that these services are not being significantly supported by general revenues (through fund transfers or any other mechanism) .

Special care should be taken to ensure that charges fully reflect the costs of providing these services to profit-making businesses, which are often greater because of the quantity or type of service provided. Where businesses use private solid waste collection companies, General Fund rather than user fee support of residential services may be justified.

- **Recreation Charges** -- There are some recreation facilities that probably serve a narrow enough segment of the public that at least partial user fee support could be justified. These might include public golf courses, tennis courts, etc. Local officials certainly need to be sensitive to the issue of creating a two-tier recreation system -- one for people who can afford to pay and one for people who can't. One way around this might be to charge for use at certain times (e.g., peak times) and not at others.

- **Highway Use Charges** -- Maintaining roads, streets, and related facilities is one of the most costly services provided by local governments. A great deal of the wear and tear on local roads is inflicted by business-related use and use by commuting workers and other non-taxpayers traveling through. For this reason, local roads are probably the facility for which appropriate user charges are the most seriously underused. (This is in striking contrast to the state level, where gasoline taxes support a relatively high proportion of maintenance and construction costs.)

Although it is a long-run solution requiring state legislation, local governments should push for authority to levy their own gasoline taxes, piggybacked on the state tax. Local governments should also examine such other means of getting local road users to pay their share of costs as imposing bridge and road tolls and sharply increasing charges at parking meters and public parking garages. One very unfortunate drawback of heavily subsidizing local road use with general revenues is that public transit systems cannot compete.

**Fire Protection** -- Certain classes of property, particularly industrial property, impose extraordinarily high fire protection costs. Surcharges for such property are entirely appropriate.

**Development-Related Infrastructure** -- New housing and commercial development frequently necessitates the construction of new public facilities, especially elementary schools, fire and police stations, playgrounds, and sewer and water system extensions.

A growing number of localities are requiring developers to construct or subsidize the construction of the facilities as a condition of receiving development permits. Local governments that have never done so should consider the use of such agreements in appropriate circumstances. Although this is not an actual application of user fees, the principle is the same: making sure that profit-making businesses imposing costs on the public sector bear an appropriate portion of those costs.

## Suggested Actions

- **Hospitals** -- Public hospitals and nursing homes are the health-care providers of last resort for America's poor. They never were intended to nor will they ever be financially self-supporting. Besides contradicting the basic purpose of these facilities, there is little practical point in talking about increasing user charges -- public hospitals already charge patients without public or private health insurance billions of dollars in fees for services that they are unable to pay. Nor is it wise to consider charging insured patients more in order to subsidize care for those who can't pay -- it will drive away even more of the insured patients public hospitals need to help pay for their fixed costs.

Still, there are a number of steps many public health care facilities can take to improve their revenue situations. These include strategies for increasing the number of insured patients and improving the rate of collection of revenues they are owed by people who could afford to pay at least a small portion of their bills. The issue of improving public hospital and nursing home finances is a major one in itself that is beyond the scope of this report. If you have such a problem, contact the International's Public Policy Department for help.

*SHOULD LOCAL GOVERNMENTS INCREASE THEIR USE OF USER CHARGES?***Disadvantages**

**Regressivity** -- This is probably the most serious shortcoming of increasing user charges paid by individuals for recreation facilities, transportation, medical care, public housing, education, etc. Low and moderate-income people are much more heavily dependent on public provision of these services than upper-income people (who tend to use privately-provided counterparts, e.g., private colleges). Increasing existing charges or establishing new ones may impose an especially great burden on families with lower incomes.

**Reducing Access** -- Equality of access is an important principle in our society; most people believe that someone's opportunity to enjoy a public park, for example, shouldn't depend on his or her income. We are especially concerned about equality of educational opportunity, which is increasingly threatened by higher fees for public university tuition. No matter what the service, charging for it will make it prohibitively expensive for some group of people when the charge reaches a certain level.

**Cutting Back Social Benefits** -- Not charging full price for a government service (or not charging at all) is a way of subsidizing it. Subsidies are often justified by the fact that broader social benefits are created by provision of the service. Public recreation facilities undoubtedly play a role in reducing crime, for example, and subsidized public transit fares reduce unpleasant congestion and health-harming pollution. Imposing or increasing user charges will reduce demand and thereby reduce or eliminate these social benefits.

**Advantages**

**Local Discretion** -- The ability of local governments to impose or adjust user charges is much less hemmed in by state law than is their ability to raise taxes. Even where there is a state restriction, it usually allows the local government to charge a price that fully covers the cost of providing the service.

**Public Support** -- Polls confirm that there is a great deal of public support for increasing the use of user charges; most people feel strongly that they shouldn't have to pay for public services they don't use. This is particularly true where the service is seen as a luxury, like a public golf course or a state-of-the-art subway system. If new revenues are needed and the majority of citizens favor greater reliance on user charges, then this is a strong argument in their favor. User charges may have fewer drawbacks than alternative sources of revenue, even as far as lower-income people are concerned.

**Fairness** -- There certainly is some legitimacy to the feeling that public services should be paid for by the people receiving them, and this is especially true when the benefits are very narrow. Particularly where a public service is an essential input to a profit-making business (e.g., sewage treatment for a factory) charging the user for the full cost of providing the service is desirable.

**AFSCME Jobs** -- In most localities, the vast majority of AFSCME members probably are involved in providing services that are not amenable to user-charge financing. If this is true, failing to charge the full cost of providing a service that could be financed with fees leads to a diversion of the general revenues that do fund the majority of AFSCME jobs. This is not to say that AFSCME should support any user charge, only that the use of user charges where they are fair and appropriate is usually in our interest.

**Revenue Exporting** -- Charging for services may raise revenues from people living outside a jurisdiction who are now using its facilities for free (e.g., recreation). In addition, charging businesses for their use of roads, sewage treatment, and other facilities exports the cost of providing them to both the businesses' customers and owners. Many of them are likely to live outside the jurisdiction.

## CHAPTER V

# ESTIMATING LOCAL REVENUES FOR BARGAINING

For AFSCME members, the need to identify additional local revenue sources is most likely to arise when management claims an inability to pay for demands at the bargaining table. The Introduction stressed that this is not an opportune time to begin looking for new revenue sources to suggest to management, because many of them have a long lead-time for implementation. We emphasized that AFSCME members need to make the adequacy of local tax bases an ongoing concern.

Fortunately, additional revenue sources are not always needed by local governments. Many taxes tend to increase more-or-less automatically with growth in the economy, population, prices, etc. This chapter is intended to help you evaluate whether management's forecast of its revenues is reasonably accurate, overly cautious or perhaps deliberately pessimistic. It covers the major revenue sources discussed in the previous four chapters, as well as year-to-year carryovers (commonly called "surpluses").

## PROPERTY TAX REVENUE FORECASTS

You must make sure when you go into negotiations with your employer that the local government forecast of property tax revenues is accurate. A few simple checks will tell you if the forecast underestimates collections for the coming year. There are three factors you must examine:

1. Does the forecast increase at least as much as the rate of inflation?
2. Does the forecast increase by roughly the same proportion as it has in recent years?
3. Does the forecast appear to include new tax revenues? Do projected collections appear to reflect new development -- housing projects, office buildings?

### Checking Inflation

This is a very simple check. Go to the most recent edition of CPI Detailed Report published by the U.S. Department of Labor. If the local library doesn't have this publication, call the reference desk of the closest University Library.\* Ask for the most recent "Consumer Price Index" for the city closest to you. If you are in Lansing, ask for the Detroit "CPI." If you are in Sacramento, ask for the San Francisco-Oakland "CPI." (If you have trouble finding the information give AFSCME International a call.)

Now, subtract the property tax revenue projection for the coming year from total property tax revenue collected last year:

Projected Revenues		Last Year's Revenues		Difference
1,250,000	-	1,200,000	=	50,000

Divide that number by last year's total collection:

$$\frac{50,000}{1,200,000} = .0417$$

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\*If the University library does not have the information, call your local newspaper. A good idea for your local is to get on the mailing list for the Department of Labor's monthly newsletter on inflation. It is free. It is called NEWS, and is put out by the Bureau of Labor Statistics at the U.S. Department of Labor, Washington, D.C. 20212. Call (202) 523-1222.

This gives you the percent change expected in property tax revenue. Compare the percent change with the CPI. Does it look like your local government officials expect to keep pace with inflation?

In this example, 4.17% growth of property tax revenues is expected. Say this projection was for Grand Blanc, Michigan. The Detroit CPI increase for this year is 3.9%. Inflation in Grand Blanc will, therefore, increase by 3.9%. Property tax revenues are expected to keep pace with inflation, increasing 4.17%. This projection passes the "inflation check."

If the projection does not keep pace with inflation, it may be due to a major plant closure. Think about what businesses have opened or closed in your town. On the other hand, it may mean that assessment practices are lax, that new business abatements are being granted, or that one of the other "leaks" described in Chapter I is occurring. Ask the assessor why the forecast does not keep pace with inflation.

### **Checking Historical Trends**

Check to make sure the revenue forecast reflects the collection trends in the current year and in past years. It is more difficult to check collection trends for property taxes than for other local taxes. This is because property taxes come in only once or twice a year. If your town bills monthly or quarterly for property taxes, you may "annualize" collections as with other taxes (take year-to-date revenue figures, divide by the number of billing periods to date, and multiply that figure by the number of billing periods that occur in a year's time). However, most local governments collect property taxes more infrequently.

To check historical collection trends, you will need to find out three items of information from the City Budget Office:

1. How often is property tax collected? Monthly? Quarterly? Annually or semi-annually?
2. Do businesses have a special schedule of property tax payments? If so, how does it work? Does the bulk of business property tax payment come in at a certain time of year?
3. Do any other classes of property have unusual collection schedules?

You will also need to get figures on every property tax collection for the last five years from the city budget office.

Assume your town collects all property taxes twice a year, with no unusual or special schedules for any class of property. If one collection has been made, simply multiply that figure by two and see if the revenue forecast matches the collection trend.

If there are special collection schedules for certain classes of property, or if property tax is collected only once a year, check the percent change year-to-year for the last five years. Has growth been steady? Does next year's revenue forecast appear to be consistent with the trend? If so, the forecast passes the "historical collection trend" check. If not, think about why it doesn't. Ask your assessor. This may be a point to bring up in negotiations.

### **The "New Development" Check**

For this check, simply ask all the members of your bargaining unit that also live in town what new developments have gone up in their neighborhood. Are there new housing developments on the outskirts of town? Have new office buildings sprung up? Apartment buildings? You have evaluated historical collection trends of property tax in your town. Does the revenue forecast appear to incorporate new tax collections from new development?

Suppose historical property tax collection in your town look like this:

Year	Collections	% Change
FY 1980	1,000,000	
FY 1981	1,050,000	+5.0%
FY 1982	1,105,000	+5.2%
FY 1983	1,165,000	+5.4%
FY 1984	1,225,000	+5.2%
FY 1985	1,285,000	+4.9%
Projected:		
FY 1986	1,345,000	+4.7%

However, you know that Prudential Insurance just built a 5-story office building within the city boundaries. Further, there is a new condominium project that is selling units. As far as you know, no major building has been razed nor has a major employer closed. Ask your Budget Office and Assessor for information. What is the reason for a projected slowing in property tax collections in spite of new development that should add substantially to the property tax base?

## **SALES AND INCOME TAX FORECASTS**

If your local government levies a sales or income tax, you need to make sure that the revenue yield of these taxes is not being underestimated. Revenue forecasting is, unfortunately, far from a science. Forecasting sales and income tax revenues is even more difficult than forecasting property taxes, because they depend so much more on the overall state of the economy (which is itself very difficult to forecast). Local officials will always have more information than the union will about how the revenue system works. Still, they have strong incentives to make overly pessimistic forecasts\*, and there are a few basic questions that AFSCME negotiators can ask to keep them honest.

### **How to Evaluate Your Local Government's Forecast of Its Sales or Income Tax Revenues**

**Available Information** -- In the typical bargaining situation you have the city or county's\*\* official forecast of next year's sales and/or income tax receipts, as reported in the recommended budget. Management will also be able to furnish you with actual collections to date for the fiscal year already underway. (Depending on how early you start bargaining, 6-9 months of actual collections will usually be available.)

**Estimating What Will Ultimately be Collected in the Current Fiscal Year** -- Your first task is to estimate what actual collections for the current fiscal year are likely to be. This is important for two reasons. First, if they turn out to be higher than expected, the city may have a larger "surplus" to carry over into the next year. Second, estimated actual receipts for the current year serve as the base to which the forecast for next year is compared.

- Annualization -- Retail purchases are made and income is earned relatively evenly throughout a year. Because the law requires merchants to turn in sales tax receipts promptly and withhold income taxes from wages, revenues also tend to flow in evenly. For this reason, a reasonable first approximation of current year collections of these taxes can be obtained by multiplying the average monthly revenues collected so far by 12. This figure should be compared to the forecast of sales or income revenues upon which the budget was based. If your estimate is larger (and expenditures don't run over projections), then the city may carry over a larger surplus than anticipated.

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\*A. They want to keep the money out of your pocket.

B. They don't want to antagonize the public by being forced to cut back on promised services should revenue shortfalls occur.

\*\*We will use city to refer to both types of government. The discussion is equally applicable to cities and counties.

- **Refining the Estimate** -- A simple "annualization" of year-to-date collections does not take into account real-world factors that can affect the pace of sales and income tax collections. For example, because of Christmas-season shopping, more than half of sales tax receipts probably come in during the first six months of a typical July 1 -June 30 local government fiscal year. Also, annualization ignores overall changes in the economy; both sales and income tax receipts will fall short if the economy unexpectedly slows down. For these reasons, the revenue estimate you arrive at by just extrapolating year-to-date collections needs to be refined with what you know about trends in your local economy.

If management challenges the estimates you arrive at by annualizing collections, ask to know why they believe the recent past isn't a reliable guide to the immediate future (which is what they're saying, in effect). In many cases they will have an official but unpublished forecast of revenues on a month-by-month basis -- they will know if actual collections are running ahead of or behind expectations. Ask to see this information, too.

**Comparing Your Estimate for This Year with Their Estimate for Their Estimate for Next Year** -- Once you have a current estimate of this year's sales or income tax receipts you can evaluate whether the city's forecast for the upcoming fiscal year is reasonable. Unless a significant economic downturn is anticipated or underway, forecasted sales and income tax receipts should not show a decline. Even if there is no real growth in the economy, sales and income tax revenues will be increased by inflation. The best estimate of what revenue growth for both taxes should be in percentage terms is the anticipated growth rate for personal income. The Public Policy Department can provide you with an estimate of this for your state. If management's estimate is below this, ask for justification.

## EXCISE TAX FORECASTS

### Evaluating Revenue Forecasts for Existing Excise Taxes

If your local government levies these types of taxes, the annualization procedure discussed in the preceding section on income and sales taxes is a reasonable first-approximation of current-year receipts. Many excise taxes do tend to flow in fairly evenly throughout the year. However, to refine these estimates and evaluate the reasonableness of the city's forecast for next year, keep the common-sense economics of the underlying tax base in mind.

**Utility Taxes** -- Utility tax receipts depend in part on the weather. If the winter heating season is over, the pace of receipts will probably be slower during the remainder of the year. If this year was a record cold winter, the city's forecast of no growth in receipts next year might not be unreasonable.

**Quantity-Based Taxes** -- Motor fuel, alcoholic beverages, and tobacco taxes are usually based on the quantity, not the price, of the taxed good. Since cars are becoming more fuel efficient and alcohol and tobacco consumption is dropping, slow growth in receipts can generally be expected. (This is a good argument for having these taxes converted to taxes based on value; after all, the cost of maintaining roads and providing other services these taxes fund is certainly not dropping.)

**Economically-Sensitive Taxes** -- Consider what you know or hear about the local economy, if tourism is booming, amusement and hotel tax receipts will show rapid growth, too. If everyone expects interest rates to decline, the local housing market may take off and generate growth in real-estate transfer taxes.

## USER FEE FORECASTS

The amount of revenue generated by local taxes usually depends on values, for example, the value of retail sales, real estate, or incomes. These values tend to rise automatically with inflation, which means that the revenues also tend to keep up with inflation-driven costs of providing public services. In contrast, the amount of revenue generated by user fees usually depends on physical quantities, e.g., the number of times a tennis court is used, the number of gallons of water consumed, the number of houses a developer wants permits to build. Unless user fees are increased regularly, the revenues they generate tend not to keep up with service costs -- growth in physical quantities depends to a large degree on the slow growth of population.

### **Evaluating Forecasts of User Fee Revenues**

To evaluate a locality's forecast of user fee revenues, you need to know how much of any growth is expected to be generated by discretionary increases in the fees themselves and how much by growth in the activities being charged for. Have management supply you with both kinds of information.

**Are the Fees Adequate?** -- The cost of providing government services; from maintaining tennis courts to inspecting private construction, increases every year. If a given service is financed in whole or in part by fees, these fees should be increased every year to cover these increased costs. If a fee is not being increase in percentage terms to the same degree as the overall budget of the department charging it, ask management for a justification. (It is possible that efficiency improvements will allow the department to generate increased revenues without increasing the fee itself.)

**Estimates of the Quantity of Services Provided** -- User fees are charged for a wide variety of services, and how much each service is likely to be used will be determined by very different variables. Let common sense, your knowledge of the local economy, and past experience be your guide. If facilities are already being used almost to capacity, for example, then very little revenue growth can be expected without fee increases. If fees are tied to a specific industry, then the economic condition of that industry will be a significant influence on fee revenues. (For example, a revenue estimate for building-related fees will *probably* turn out to be too low if the local housing market has taken off since it was made.) As always, keep timing issues in mind. If it's April, your county isn't going to collect any more ice-skate rental income -- annualizing year-to-date collections would not make sense.

## CARRYOVERS

Besides all the monies that flow into local government coffers from taxes, user fees, federal grants and state aid every year -- "revenues" -- there is another major source of funds out of which local services can be financed: The unspent funds that might be left over from last year. This is usually referred to as a surplus or "fund balance." In our experience, local officials frequently play very fast and loose with how they report this figure to AFSCME and the public at large. This is not to say they're being dishonest. Rather, they often use whatever leeway the law and accounting rules allow to label this in a way that obscures what is really there in the way of cold cash that can be used to pay for real services. It is well worth questioning local officials carefully about their reported past surplus figures and forecasts of future surpluses.

### Evaluating Local Government Surplus Figures

**Last Year's Surplus** -- The budget for the fiscal year you're in the middle of now was adopted before the last fiscal year ended. This means that the end-of-last year surplus carried over into this year had to be estimated. If you are more than a few months into the current year, that amount should be known. You should check to see if the actual surplus turned out to be larger than the estimated surplus included in this year's budget.

To do so, ask to see the "audited financial statements" for the last fiscal year. (Most states require local governments to have their books audited and certified by either a private accounting firm or a state auditor.) Look at the bottom right corner of the General Fund "balance sheet." You should see a dollar figure labeled "fund balance." This is what last year's surplus turned out to be; compare it with the figure listed in the budget, and question management about any significant discrepancies.

In some cases the fund balance may be broken down into an "unrestricted fund balance" and "fund balance reserved for" x, y, and z. This is where the games often come in. Question management vigorously about any "reserved for" items. If some money was reserved for "encumbrances," ask to see verification that the encumbrance actually had to be paid. (An encumbrance is essentially an outstanding financial obligation that exists even though a bill hasn't been received.) For other "reservations," ask to see a local ordinance formally putting the money aside for a specific project. Frequently, these reservations are made on the balance sheet even though the project may only be very tentative. (As we mentioned in our discussion of user fees, also look in the financial statements for any evidence that funds were transferred out of the General Fund into sewer, road, airport, or other funds.)

**This Year's Surplus** -- The ending-year balance for the fiscal year underway will be available in full to fund services next year. Next year's budget should contain an estimate of the beginning-year balance. To determine if it has been underestimated, consider your evaluation of this year's revenues. If it appears they will be above projections, then next year's estimated beginning balance should be larger than this year's. If this year's expenditures are running below projections, then this will have the same effect.

**Next Year's Surplus** -- The recommended budget for the upcoming fiscal year should include an estimated end-of-year balance. Although it is understandable that management would want to budget for one, be aware that this figure does represent money that could be spent next year, too.

## **CHAPTER VI**

**WHERE DO YOU GO FROM HERE?**

Now that you have read a wide variety of ideas about how to produce new revenues to support local services, you may be wondering when and how to start putting these ideas to work. The following chapter provides some guidelines you might like to consider.

## TIMING

### **Begin Right Now; Don't Wait for a Fiscal Crisis or Contract Negotiations.**

It always takes a long time to convince people of the need for change. Even if everyone agrees that changes are needed, many must be implemented through a city council, a board of supervisors, or even a state legislature. In addition, there is usually a gap between the time a change is made, and the time revenues begin to flow in as a result of that change.

The old saw "If it ain't broke, don't fix it" may make sense in some situations, but you and your local officials have no way of knowing whether your tax system is "broke" -- in terms of adequacy or fairness -- until you take a close look at the issues raised in this report.

Fiscal crises may be just around the corner. All local governments have to deal with the expiration of General Revenue Sharing in October 1986 and with federal aid cuts required under Gramm-Rudman. A National League of Cities survey reports that 40 percent of local officials believe that they cannot maintain services in the face of federal aid cuts without raising taxes. Given the political difficulty of raising taxes, the "offense" of new revenues is the best "defense" against service cuts.

Suggestions for more adequate revenues that are made during negotiations will tend to be seen as self-serving, just a way to get a wage increase.

**ALLIES****Broaden Your Base of Support; Stress the Need to Maintain Services**

It is difficult for public employees to take the lead in calling for new revenues. Your motives will often be suspect. Making common cause with groups who depend on the services you provide will strengthen your case.

- As public employees you probably have a good idea of what services need expansion and improvement, and also what services are likely to be cut if revenues fall short. You also know what groups of population depend on these services: the elderly, children, low income persons, etc. If you reach out to organizations in your community representing these groups -- carefully explaining the connection between expanding revenues and specific services -- you will have natural allies.

## PRIORITIES

### **Look First at Revenue Sources That Improve Fairness**

If the new revenue sources you want to tap also happen to improve the fairness of the system -- to insure that everyone is paying a fair share -- the political job of selling those changes will be easier. Many of the revenue-increasing strategies in the preceding chapters fall into this category.

- The greatest inequities in the current system lie squarely with the property tax. Fortunately, this is also where stepped-up efforts to improve fairness will yield the biggest revenue payoff. Equalizing assessments for both residential and business properties and keeping them current with market values should have the highest priority. A determined effort to clamp down on business tax abatements should also be made. These steps usually have the added advantage that they can be taken by local officials under their existing authority.
- Also emphasize better enforcement of existing taxes, from cutting down on property tax delinquencies to making sure merchants remit their sales taxes promptly. This might not seem like a strategy for improving tax fairness. It is, in fact, a very important one, because every time someone does not pay taxes they owe, all other taxpayers have to make up the difference.
- Where there is agreement that user fees are justified, make sure they are keeping up with the cost of providing services. If they're not, all taxpayers are paying higher than necessary taxes to cover the gap in the cost of these services.

### **If Tax Increases are Necessary, Stress Base-Broaden Lag Reforms Rather than Increases in Rates**

Nearly all types of taxes levied by local governments are riddled with exclusions, exemptions and abatements of one kind, or another. Some of these were undoubtedly established with the best of intentions, but most are probably not living up to their original purpose. If tax increases are necessary, increasing rates across the board only imposes a higher tax burden on people who are already paying. It is far more fair (and generally more desirable from an economic point of view) to expand the tax base to include more property, sales, income, etc. We've discussed these measures more extensively in the preceding chapters, but examples include:

- including all forms of income, not just wages, in the local income local tax base
- including services under the sales tax
- targeting property tax relief more tightly
- reducing the amount of tax-exempt property.

### **Don't Neglect Long-Term Strategies**

In a period of fiscal distress, it will be natural to grasp at those strategies for raising revenues that promise the greatest short term results. Preserving services for the needy and the livelihoods of the workers providing them will, understandably, be the first priority.

Unfortunately, many of the changes needed to fundamentally improve both the fairness and the adequacy of local revenue systems require state action. With state governments facing their own crises, these changes are likely to come only after a long fight to get them on the political agenda. In the coming period, groups concerned about fair and adequate local taxes need to divide their efforts between those that promise increased revenue in the short run and those that can really build the base for fair and adequate local taxes in the long run. The important long run goals include:

- Improved property-tax relief systems. To date, most circuit breaker and homestead exemption programs are limited to the elderly and the poorest of the poor. If these can be extended to more moderate income groups, the property tax can be moved far in the direction of becoming a progressive tax on wealth. In the process, the potential for property tax revolts will be reduced significantly.
- Expanded authority for local governments to levy broad-based, progressive income taxes. The broad-based progressive income tax is undeniably the fairest revenue source available to any level of government, but very few local governments in the U.S. are allowed to use it. Adding income taxes to the allowed revenue mix is practically the only means of changing the fundamentally regressive character of local revenue systems. Unless this is done, it will be very difficult to maintain adequate levels of services as local governments assume responsibilities being dumped on them by the federal government.

- Broadening the base of sales taxes to include services. The sales tax is already an extremely important source of revenue for state governments, and it is an increasingly important one for local governments as well. It is well known that services are rapidly displacing goods as a component of our national economic output. Unless sales tax bases are broadened to include services, state and local governments will see a continued erosion of this important revenue source.

## CONCLUSION

We hope this guide aids your efforts to achieve better public services, fairer taxes, and improved wages and working conditions, both as local citizens and as AFSCME members. We welcome information on your experiences in using this guide and your suggestions for improving it.

As always, the International's Public Policy and Research Departments stand ready to help with any problems or issues relating to local taxes and negotiations. Don't hesitate to call on us.