

# **Bond Case Briefs**

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## **Rising Special Purpose Taxes Carry Long-Term Funding Concern.**

Tight budgets and public backlash to broad-based tax increases are causing a growing number of state and local governments to enact special purpose taxes, which directly link revenues to specific programs, stoking concerns about their long-term financial viability.

Whether they are for teacher salaries and school safety enhancements in Florida, road repairs in Mississippi, police protection in Kansas, public health services via soda tax in Boulder, Colorado, or even flood control in Iowa, tax policy experts say the use of special purpose taxes is clearly on the rise.

While this trend of augmenting existing income, sales and property taxes might be understandable, critics worry about the long-term ramifications that this ad hoc funding will have on the delivery of essential services.

“The appeal of special purpose taxes is that voters tend to have much more favorable views of specific government services than they do of government as a whole,” said Jared Walczak, senior policy analyst at the conservative-leaning Tax Foundation. “The problem with special purpose taxes is that they tie the hands of policymakers.”

Not only do they crimp the ability of elected officials to reprioritize spending and respond to changing circumstances, Walczak said, but these quid pro quo taxing arrangements also lock in specific spending targets, even as needs and priorities change.

Part of the problem, or impetus, behind the trend is the simple fact that the cost and demand for top-quality local service has, in many jurisdictions, risen faster than local wages and income. While inflation is clearly not a new problem, the increased use of this type of municipal taxing response to it is.

“Special purpose taxes have a longstanding history but are being once again popularized mostly as a result of backlash against state and local tax increases as well as due to cuts in state aid to localities,” said Lucy Dadayan, senior research associate at the Urban-Brookings Tax Policy Center. “Politicians and government officials know that voters are most likely to support new taxes that are targeted to a specific need or purpose.”

For example, Dadayan points to Coweta County, Georgia, as an example of a jurisdiction that has successfully used special purpose taxes to fund scores of local projects since 1986 via a program it calls the Special Purpose Local Option Sales Tax, or SPLOST.

Like most special purpose taxes, Coweta’s SPLOST program requires ongoing annual or biennial approval from voters. As a result, county government actively and unapologetically promotes the benefits that the 1 percent local sales tax levy brings to the community.

“SPLOST has enhanced quality while keeping property taxes low, has minimized long-term debt in

Coweta County, and an estimated 40 percent of shoppers” who pay the tax live outside the county, Coweta’s website says, alongside photos of the many roads, bridges, parks, playgrounds, firetrucks, equipment and building repairs the tax has funded.

To be sure, special purpose taxes — or any tax revenue, for that matter — can be shown to support all manner of popular programs and projects, but these visible and tangible outcomes do not reflect how efficiently the money was spent in building a particular bridge or building, or if the revenue was equitably shared between different neighborhoods and districts.

Frank Shafroth, director of the Center for State and Local Leadership at George Mason University, sees the rise of special purpose taxation as worthy of attention.

“It is hard to find anyone who likes taxes,” Shafroth said via email, “but every city, county, and school district either is mandated to have a balanced budget, or wants to reduce their costs of borrowing to finance public infrastructure.”

In fact, Shafroth feels the salesmanship that is involved with many of these taxes is not entirely unlike traditional retail advertising, which plainly identifies costs and benefits for consumers to see.

“That means that, increasingly, these jurisdictions want to ensure voters appreciate that their taxes will be devoted to paying for valuable public infrastructure or services,” Shafroth said of this store-like marketing of public finance.

Carl Davis, research director for the Institute on Taxation and Economic Policy, has written extensively about the impact of reduced state and federal aid and cost shifting on localities, but argues that if relabeling a tax is all that is needed to get vital programs funded, so be it.

“Telling people exactly how a tax will improve their community is key to overcoming knee-jerk antitax sentiments,” Davis said, noting that “the whole reason taxes exist is to fund public services that people need and want.”

While the debate over the merits of dedicated revenues, which assign tax receipts to a specific purpose, versus consolidated funding, which puts all municipal revenues into one big pot, may never be settled, experts say it’s important to at least be aware of the trend and its potential impacts.

“Raising taxes for teacher pay raises, funding the fire department or fixing potholes is a lot more attractive than raising taxes to fund general government operations,” Walczak pointed out, “even if, at the end of the day, the spending mix is the same.”

## **Law 360 - Tax Authority**

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