

Rethinking Government Revenue



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Read the first report at
gfoa.org/rethinking-revenue

Even the best systems with the right amount of maintenance and support don't last forever. Many local governments are now in a position where infrastructure that was built decades ago is obsolete and needs to be rebuilt or possibly rethought. The American Rescue Plan Act (ARPA) funding is so attractive because it creates the opportunity to do just that—make a generational investment in bettering the community.

When looking at local government revenue systems, many of which were developed centuries ago, we must ask ourselves if we need to rethink our approach and whether that new approach will serve local governments well in the future. GFOA has started asking some of these questions as part of ongoing research from the Rethinking Revenue Initiative.

The Rethinking Revenue initiative is a joint project involving many organizations that have an enduring interest in creating thriving local communities and making sure those communities are served by capable and ethical local governments. Rethinking Revenue is about providing local governments with the ability to raise enough revenues for the services their communities need—and to raise those revenues fairly, and in a way that is consistent with community values. The first report from Rethinking Revenue is about defining the problem that local government revenue systems face.

While ARPA has provided temporary revenue to local governments, it isn't a long-term solution to the state and local government revenue system's problems. Revenue structures are largely based on assumptions that no longer hold today because of digitization, globalization, demography, political changes, and other trends. The nearly ubiquitous property tax provides a good example of a revenue structure whose relevance has been challenged by the changing economy. A large part of the value created in the modern economy does not involve property. As wealth has become less connected with property ownership, the property tax doesn't represent the taxpayer's ability to pay in the same way it once did. Another example is sales taxes, which have only recently been applied to online sales. This has helped keep the sales tax more relevant than it otherwise would be, but sales taxes are routinely not applied to many services, and consumers have been shifting more of their purchases to services over the years. In two of what could be dozens of other examples, fuel taxes fail to account for electric vehicles, and cable television franchise fees don't capture the growth in online alternatives.

These shifts might mean that local governments will be increasingly unable to raise sufficient revenue, while also creating issues of fairness in distributing the burden of paying for government services.



The problem has been well documented, showing that lower-income people end up paying a disproportionate share of taxes. The current system also creates disparities between local governments—jurisdictions that are fortunate enough to have several wealthy taxpayers or contain regional shopping centers often can lower rates for others. Governments have also introduced other distortions to favor specific types of individuals. For example, property assessment practices that sometimes favor homeowners over renters or long-term residents over new ones can go against bedrock values of fair and equal treatment.

In pointing out these issues, we fully recognize that change is difficult, and that the changes we need to make will take a long time to fully implement. But GFOA and its partners on this project understand the importance of the discussion, the need to study opportunities, and the value of considering impacts on state and local governments into the future. If you're interested in contributing to the discussion, I'd welcome your comments, and I invite you to participate in future meetings. The next step for the Rethinking Revenue initiative is to identify what principles should guide revenue reform, examine potential reforms, and think through practical steps to implementation.

Please stay tuned to gfoa.org/rethinking-revenue for more updates and future reports.

Sincerely,

Chris