

NEW TAXES THAT WORK

HOW LOCAL GOVERNMENTS CAN RAISE NEW REVENUES

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The Government Finance Officers Association (GFOA) represents approximately 20,000 public finance officers throughout the United States and Canada. GFOA's mission is to promote excellence in state and local government financial management. GFOA views its role as a resource, educator, facilitator, and advocate for both its members and the governments they serve and provides best practice guidance, leadership, professional development, resources and tools, networking opportunities, award programs, and advisory services.

Local government leaders often consider it a truism that citizens will not vote for more taxes. Public opinion on local taxes, however, may not be as rigid as the conventional wisdom suggests. To illustrate, since 2004, 3,023 different local revenue initiatives were posed to California voters and 2,094—or 69%—of them passed!

Of course, these statistics do not show that the public is eager for new taxes. For example, local governments in communities with a strong anti-tax sentiment would probably not submit a local revenue initiative to voters in the first place. These statistics do suggest, however, that the public is often willing to consider new taxes. This 69% passage rate is even more impressive when one considers that, due to the requirements of California election laws, 38% of the 3,023 revenue initiatives were held under rules that required approval by two-thirds of voters to pass, instead of the customary simple majority.^{1,2}

The public's willingness to consider new taxes is not limited to California or other higher-tax states. The objective of this paper is to identify the key features a proposed new tax should exhibit in order to be successful. To do so, we will examine the experiences of local governments from Florida, Oklahoma, Missouri, and other states. Before reviewing these and other examples and distilling the features of a successful tax, it is important to understand a critical tension at the heart of public management that impacts any local government's strategy for raising revenue.

Accountability vs. Flexibility: The Classic Dilemma of Public Administration

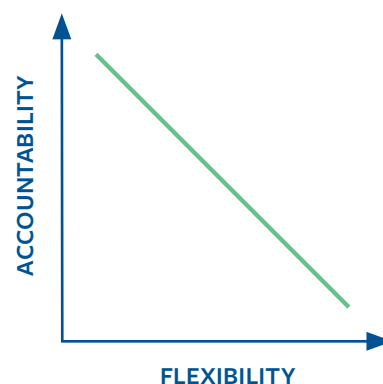
The tension between: A) the responsibility of public officials to demonstrate “accountability” to the public and B) the “flexibility” of officials to take discretionary action in the pursuit of public goals can be described as a classic dilemma of public administration.³ This tension applies to raising revenue. Public officials, naturally, would like the flexibility to raise revenues in the way and amount they judge necessary—and use the revenue as they see fit. The public, however, often prefers to stress accountability, where the ability of officials to raise and use revenues is closely monitored, if not circumscribed.

Although there is a tension between accountability and flexibility, communities do not have to pick one or the other for their local government. Rather, there is a continuum between the two, as shown in Exhibit 1. Communities can give up some accountability to grant more flexibility to local officials and vice versa. For example, some states have highly restrictive tax and expenditure limitations written into state law. This means that local officials can't raise taxes against citizens' wishes.

The public may feel that this arrangement makes local officials accountable to the public's views. This arrangement, however, also provides less flexibility for local communities to determine their own future.

Successful revenue raising demands that citizens and their local governments find the right way to balance accountability and flexibility for their community. In the following pages, we will examine features of a potential new tax that influence its chances for success.

EXHIBIT 1 | ACCOUNTABILITY VS. FLEXIBILITY





ASSOCIATE THE TAX WITH A CONCRETE PURPOSE THAT CITIZENS VALUE

There must be a clear need in the community in order for citizens to tax themselves to provide it.

Our analysis shows that taxes put forward for voter approval in California received an average of 6.2 percentage points more support when the sponsoring government identified a specific service that the tax would be used for, such as schools, road improvements, parks, etc.⁴ Of course, it is understandable that the public would be more supportive of a tax when they know what they will get in return for their money.

Public safety and streets are two services that sometimes resonate with a wide range of citizens. For example, the City of Oklahoma City, Oklahoma, found that street quality was a perennial concern in its annual citizen survey: bottoming out with only 9% of citizens approving of street quality. For the City of Plant City, Florida, 50% of its 160 miles of streets were in poor condition. Staff estimated that it would take up to 60 years to resurface or reconstruct all roads in the city, based on available resources at the time. In both cities, street quality served as the foundation for a new tax.

A new tax does not necessarily need to be associated with a highly visible service like public safety or streets in order to succeed. For example, the people of Broward County, Florida, approved a new property tax and a special district to provide services for disadvantaged children. The new district was the Broward County Children's Services Council. Though most people would not personally use the services provided by the proposed tax and Children's Services Council, the case was made that the current approach was failing, including:

- Four Grand Jury reports related to failings of the foster care system
- Cutbacks in summer school programs and services, especially for children with special needs
- Increases in juvenile crime

The proposal for the Broward County Children's Services Council and its new tax passed with 57% approval.

Our examples above show that the public is willing to support new taxes for different kinds of services and our analysis of the California ballot data support this. In general, the California data did not show large differences in the support a proposed tax received based on the type of service the revenue was pledged to. In other words, no particular service stood out as being universally more popular with the voting public. The lessons appear to be that there must be a clear need for a service *in the community* in order for the citizens of that community to tax themselves to provide it, and that the public might be willing to consider new taxes across many different service areas. In fact, according to an interview we did with a public opinion research firm that specializes in local tax initiatives, taxes receive more

support when they are associated with *multiple* specific purposes.⁵ This way, a new tax stands a better chance of appealing to the interests of the broader community.

We did not find very large differences in the support for different services. The only important difference we found was that proposals to spend on schools tended to garner about five percentage points more support, on average, compared to services like public safety, library, transportation, and so on. Perhaps contrary to conventional wisdom, we did not find that public safety tax proposals performed much differently from proposals for libraries, parks, hospitals, or transportation.⁶ Instead, it appears that public support for a tax mostly depends on local circumstances. For example, we saw that street quality in Oklahoma City was a big concern for the public in a community where cars play an indispensable role in people's mobility. Current events can also influence the public interest in different services. To illustrate, in California, taxes to support fire protection polled well in the wake of wildfires in that state, and taxes to support water quality and conservation polled well in the aftermath of a drought.⁷

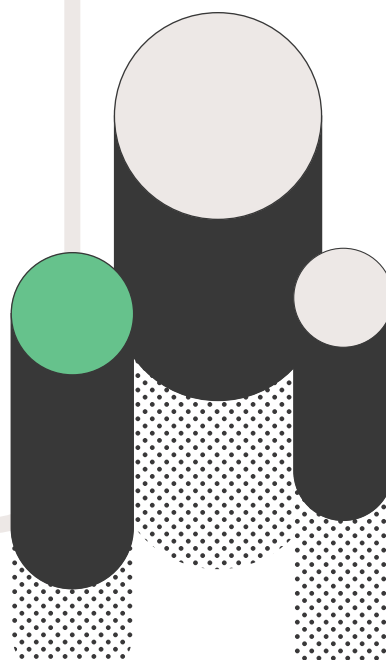
We have seen that associating services with particular revenue streams can increase public acceptance of taxes. If the legal mechanism establishing this association is too inflexible, however, then the local government may find its revenue base overly constrained in the future. This problem compounds if many different revenues are connected to different services. In the future, if a service becomes less relevant to the community's needs, the local government may find that it does not have the flexibility to easily change how its resources are allocated. For example, a series of legally binding referenda could have the effect of dividing a city's revenue sources into a series of tranches, with one tranche for library, one for police, and so on. If the community decides it needs more library services and less from the police (or vice versa), it might find it difficult to adjust spending in those areas since the revenues have been pledged to those services. In this case, the city would find itself woefully short of the necessary flexibility to resolve this situation.

Hence, local government officials should think carefully about how to give the public the accountability it seeks while maintaining the flexibility to adapt to changing conditions in the future.

First, local government officials should think about ways they can build trust between local government and its community. If trust exists, then the public may be willing to pay taxes without requiring tight legal restrictions on how that money can be used. In fact, studies have found that more trust in government correlates with an increased willingness on the part of the public to pay taxes.⁸

Maintaining Trust with the Public

Even if a service is supported by a pledged revenue source, it will often be supported by some general revenue as well. Public officials might be tempted to reduce general revenue support to that service if they need to shift resources. Reducing the total resources for that service, however, might be viewed as contravening the wishes of the public and a “backdoor” route of raising taxes on the public to use for the preferences of public officials, rather than those of voters.



Taking the actions necessary to build trust is a form of accountability. There are two main factors that contribute to how people gauge trust: competence and values.⁹

Competence concerns the ability of a person or institution to accomplish goals and perform tasks. For example, if citizens can see that their government keeps the local streets well-maintained, then their perceptions of competence will increase. Values address the underlying motives of an institution or person—and they speak to the emotions and moral intuition of the citizen. For example, if citizens believe an official's motives are pure, then they will be more likely to trust the official. There are a number of strategies local government can employ to increase trust. You can learn more about the strategies and how to implement them in the GFOA report “[Transparency: A Means to Improving Citizen Trust in Government](#).”

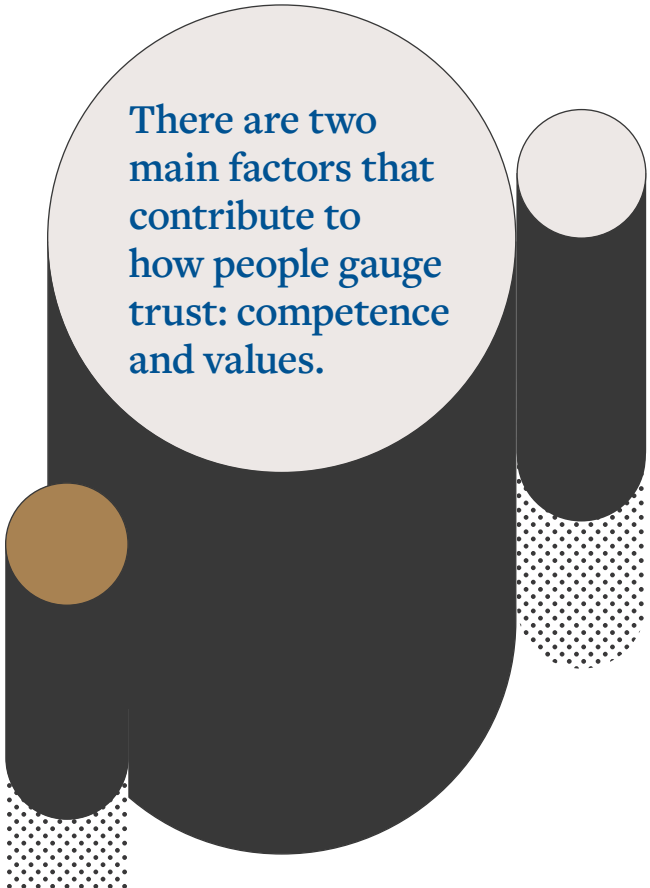
In addition to building up their trustworthiness, local governments can look for ways to show citizens how the taxes they pay are associated with the services they receive, without having to resort to a binding referendum or otherwise excessively limiting their flexibility. A good place to start is the budget. Connecting the budget to goals that are important to the community can help the public understand how tax money is used to provide the services they value.

There are a number of ways this could be accomplished. First, the budget could be linked to a strategic plan that was developed using community input. The strategic plan defines what is most important to the community and how the community will get there. Second, a local government could develop a program budget, which organizes spending into service areas, rather than just departments, objects-of-expenditure, and line items. A program budget is more meaningful to the public because programs are directly relevant to how they experience public services. For example, budget discussions about police patrols and tree services are more meaningful than discussions about salary, benefit, commodity, and contractual service costs in the budgets of the police and public works departments.¹⁰

A local government could also do both a strategic plan and a program budget. This is the best way for both local government officials and citizens to understand the context for a potential new source of revenue. For example, what are the community's biggest needs? Are there opportunities to cut spending in lower-priority areas and redirect the resources, rather than raising taxes? The City of Indian Wells, California, has worked to produce a combined [strategic plan and program budget](#). City Finance Director Kevin McCarthy attests that the new budget presentation is half the size of the old one, but says a whole lot more.

With trust and a good budgeting process in place, citizens are more likely to agree that their local government is spending tax money wisely. When that happens, the public may not feel the need for additional legal restrictions on how new funds will be used. Rather, citizens may trust the government to essentially hold itself accountable and show how tax money was used to achieve the community's goals.

This frees the government to use other methods besides a binding referendum (or similarly restrictive method) to authorize the new revenue. Oklahoma City's tax for streets and public safety was structured to be a city council resolution, so the tax could be changed by a council vote, if needed.



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In 2017, The City of Plant City’s Commission raised the city’s property tax millage rate from 4.7 to 5.7, with the extra 1.0 mill dedicated to street resurfacing. It committed that the funds would be set aside to provide accountability for the revenues and expenditures. The commission also left itself the flexibility to end the additional millage rate at any time or even to no longer dedicate it to street resurfacing. In 2018, the commission continued the extra millage rate and the dedication to street resurfacing. Of course, Plant City intends to see through the projects that the tax supports, and we’ll show some of the results they’ve demonstrated to citizens later—but, for now, we will note that Plant City did not lock itself into a course of action should officials need to change course later.

State law in Oklahoma and Florida allowed these two city councils to raise revenues on their own. Some local governments don’t have that ability and can only raise revenue with voter approval. In these cases, it might be possible to place advisory (non-binding) language on the ballot that explains the intended use. This connection associates the revenue with a clear purpose without overly constraining the government. Of course, this requires that voters trust the local government to follow through on its stated intentions.

Another strategy to avoid placing too many restrictions on the tax base when connecting taxes to a particular

service is to institute the tax for a limited duration. This might be a useful strategy if it is not possible to create flexibility in how the association between the tax and the service is made. For instance, if only a binding referendum is possible, then a sunset on the tax might be a way to make sure the revenue base doesn’t become too constrained. This strategy of limiting duration is discussed in greater detail later in this paper.

Finally, the City of Jackson Hole, Wyoming, took a different approach than the other local governments discussed so far. Jackson Hole is well known for the quality of its natural environment, so preserving it is a high priority for the community. Therefore, the city instituted a fee on plastic bags, because plastic bag litter degrades the environment that the community values. The fee is intended to decrease the number of bags people use, so the fee meets the test of establishing a connection between the revenue and an outcome that is valued by the community. Other local governments have taken a similar tack with taxes on sugary beverages (to encourage public health) and parking lots (to discourage traffic and urban sprawl). With this strategy, though, the public may expect that the revenue be used to fund a program that also mitigates the same activity that the tax or fee is expected to discourage. For example, the revenue from Jackson Hole’s fee goes directly to a program to deal with plastic bag litter across the entire county.

CHECKPOINTS

- ✓ Associate a new tax with a service or services that the community wants, rather than being ambiguous about the services that the tax will fund. The more compelling the need is for the services, the more likely it is the tax will be supported.
- ✓ Look for more flexible ways to associate a tax with service(s). Look for a way that gives the public the accountability it desires without locking local government into an overly specific course of action for the long-term.
- ✓ Establish trust with the community by providing transparency in how taxes fund services and demonstrating how those services produce value for the community. When this happens, citizens may be satisfied with local government’s self-regulation and not feel the need for less flexible, legal restrictions on how money can be used.
- ✓ Consider if a private activity that works *against* an important community goal can be taxed. The public may appreciate that the tax is intended to reduce that harmful activity.



LIMITING THE DURATION OF THE TAX

The problem with a firm limit on the duration of the tax is that it could leave a big hole in the budget when the tax expires.

Some people may be more comfortable with a tax if it is not intended to go on indefinitely. Our analysis of California ballot initiatives suggests that revenue measures that included an expiration date for the new revenue do somewhat better than those without one in some cases.

To illustrate, for revenue initiatives, excluding schools, that were specific about the service to be funded, support was 3.3 percentage points higher when the initiative included an expiration date on the revenue, compared to when there was not an expiration. For revenue initiatives that were not specific about the service to be funded, the presence or absence of an expiration date did not seem to change public support much.¹¹ So, even when an expiration date seems to have helped, the effect is not nearly as powerful as associating the tax with service(s) that citizens value.

Our discussion with a public opinion research firm provides insight into why we see these mixed results from limiting the duration of the tax.¹² Some portion of the public will be firmly against all forms of new taxes. Limiting the duration of the new tax won't change their minds. People who are firmly in favor of the new tax will likely view an expiration date as a weakening of the proposal, thereby dampening their enthusiasm for it. For example, imagine a new tax is proposed to improve public safety, but the tax is scheduled to end in three years' time. Firm supporters may be dismayed that public safety services will apparently regress after the three years are up. The people to whom limiting the duration might appeal are those who are lukewarm in their support or unsure about the measure. Improving these peoples' opinions of the tax may not always be worth the loss of enthusiasm from the tax's most committed supporters.

There are many ways to limit the duration of a revenue measure. One option is to identify a firm expiration date. The City of Eureka, Missouri had a special sales tax approved that would sunset in 20 years. Many of the California ballot initiatives we examined featured firm time limits of many different lengths, from just a few years to decades in length.

Of course, the problem with a firm limit on the duration of a tax is that it could leave a big hole in the budget when the tax expires. For example, one city in California supported just under a quarter of its operating budget with a local option utility tax that had to be reauthorized every five years. Perhaps not surprisingly, the city spent a good deal of time and energy worrying about how it would cope if the tax were not reauthorized and spent time and money preparing to ask the voters for the next renewal of the tax. These resources probably could have been better spent. Also, the extreme uncertainty surrounding the city's funding hampered its ability to plan for the long-term.

Of course, a local government should avoid this predicament.

Another way to limit tax duration is to introduce an ongoing local option to repeal the tax. In Plant City, the dedicated 1.0 mill is not automatic each year. It requires a vote of the city commission during the budget process. In California, ballot language that says the tax will remain in force “until voters choose to end it” has become popular.¹³

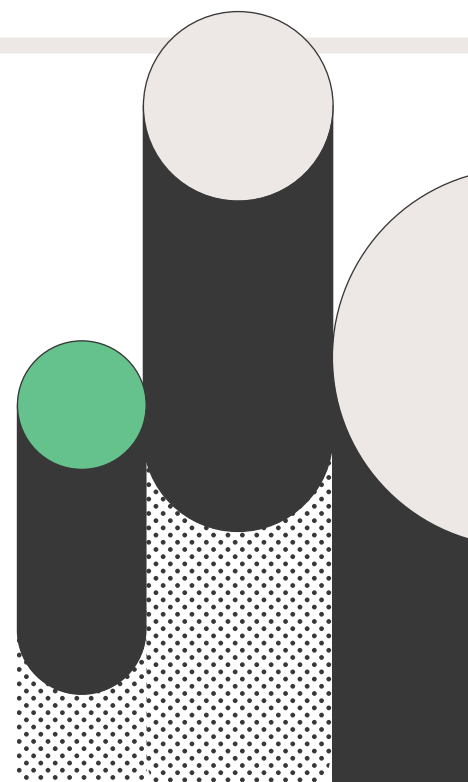
If a firm expiration date is to be used, then one solution is to align the duration of the tax with the duration of the services that the tax will be used to fund. For instance, capital assets might be an appropriate use of a temporary tax: the purchase of the asset can be funded over the life of the tax. An operating service could also be aligned with the lifespan of the tax supporting it. For example, the City of Roanoke, Virginia, passed a limited-duration tax to help its school system weather the revenue downturn caused by the Great Recession. The tax was anticipated to end when the schools’ revenues began to recover.

Hence, public officials must consider if putting a firm expiration date on a tax is wise public policy, given the intended use of the revenue source. The California city we mentioned above eventually decided that the sun-setting utility tax was not a sustainable strategy and sought

(and was given) approval by the voters to make the tax permanent. In another example, the Los Angeles County Metropolitan Transportation Authority (locally known as “Metro”) is the local government responsible for highways and mass transit in Los Angeles County. Metro wanted to propose a half-cent sales tax measure that would fund transit improvements to relieve Los Angeles’s world’s-worst traffic congestion.¹⁴ Initially, some people at Metro felt that the half-cent tax should have an expiration date in order to increase its chances of passing. Metro ultimately concluded, however, that it would need the half-cent sales tax for a longer time in order to build the amount of infrastructure the community wanted at the pace the community wanted, while also maintaining the newly built infrastructure in a state of good repair. Metro, therefore, decided to drop the sunset provision from the ballot language and replace it with language that the tax would stay in place “until the voters decide to end it.” By working closely with the community to define what the tax revenue would be used for and why the revenue would be needed over the long-term, Metro’s public opinion polls showed that public came to prefer a no-sunset tax measure over a measure with a sunset. The measure ultimately passed in 2016 with about 71% approval.¹⁵ We will examine the public outreach strategies used by Metro and other local governments in the next couple of sections.

CHECKPOINTS

- ✔ Limited-duration taxes sometimes prove more palatable to the public than unlimited duration taxes. This strategy, however, can have mixed results.
- ✔ Be mindful of the hole in the budget that will be left when the tax expires. Align the duration of the service the tax is funding with the duration of the tax itself. For example, a temporary capital project might be a good use for temporary tax revenue.
- ✔ Consider if a firm expiration date on the tax is really good public policy, given what the local government seeks to accomplish with the funding.





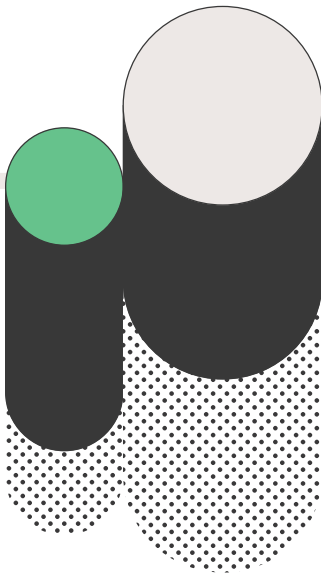
ENGAGE CITIZENS TO HELP DEFINE THE NEED FOR NEW REVENUES

The citizens of Mount Vernon, Ohio, passed a 33% increase in the local income tax rate—taking it from 1.5% to 2% in the first tax increase in 34 years. Long before the question was put to the citizens, the city assembled a study group composed of prominent leaders of local businesses and civic organizations to study the need for more revenues. The group met monthly for over a year. They closely examined the city's finances. They also considered investments the city needed, including extensive infrastructure needs.

The group discussed which method of generating revenues would be fairest. For example, a property tax would be levied on all citizens, including fixed-income senior citizens. The local income tax, however, would not apply to those senior citizens. This generated a good deal of discussion not only in the group but also in the broader community. Engaging the public in the conversation from the beginning helped ensure the local government would develop a proposal for a new tax that was aligned with what the community would be willing to support. Furthermore, the members of the study group took ownership of the decision and then actively supported the tax measure in their roles as private citizens.

While the city of Mount Vernon concentrated its work with a limited number of influential citizens, Oklahoma City engaged a broader segment of the community. Oklahoma City's goal was to learn more about the community's priorities. The city worked with a local nonprofit to conduct outreach into neighborhoods, conducted a citywide survey, and held small group meetings in each of the eight city council wards in order to give people a chance to talk with city staff and elected officials about their concerns. These outreach strategies helped define the services that the proposed tax increase would fund.

LA Metro worked with influential citizens and undertook broad outreach to support its tax measure. On the following page is a sampling of the outreach strategies Metro employed.



Fairness in Taxation is Essential

A 2018 survey showed that people feel that the most important characteristic in being a “real American” is a belief in everyone being treated equally.¹⁶ This underscores the importance the perceived fairness of public policies, including revenue policies. As in Mount Vernon, the public could be very helpful in deciding the fairest way to tax.

- Metro worked with regional bodies, called councils of government, within Los Angeles County to define the highest priority capital projects for each region.
- The Mayor of Los Angeles invited the other 87 mayors in Los Angeles County to a summit to discuss the future of transportation in Los Angeles. This helped build a base of support for Metro's tax measure. It is notable that the City of Los Angeles is a completely separate legal entirety from LA Metro. Although the mayor appoints four of the thirteen seats on the Metro board and LA is the largest constituent city, some of the board members were from a different political party than the mayor. Therefore, cooperation between the Metro board and the LA Mayor's office required crossing partisan lines.
- Metro conducted surveys and focus groups with the public to test the level of support for a new tax for transportation and learn what citizens felt the measure must accomplish in order to be acceptable. For example, Metro learned that citizens had more interest in the potential for new transit projects to relieve traffic, compared to during the Great Recession when there was more interest in the potential of capital projects to create jobs. Metro also learned the public would be more likely to approve a new tax if it were supported by a clear plan for what the money would be spent on and if that plan showed how each of the 88 cities in Los Angeles County would benefit (note the importance that the public placed on perceived fairness).
- Metro asked the public to weigh in on its detailed plan for the capital projects that would be funded with a new tax. Metro used a variety of in-person and virtual meeting formats and was able to engage with about 75,000 residents of the Los Angeles area. Critically, Metro adjusted the plan based on what it learned. For example, Metro increased the portion of the tax that would be dedicated to funding projects in local communities because Metro heard the importance the public placed on seeing a return from the tax in their own communities. Perhaps the most surprising change was that citizens favored a "no sunset" plan over a plan in which the tax expired after 40 or 50 years. A no-sunset plan and tax would allow Metro to do more projects sooner because it would be easier for Metro to borrow against a revenue stream with no expiration date.
- Inherent in many of the points above is that Metro underwent a cycle of continuous refinement of its tax proposal. It used public feedback to refine its tax proposal, then tested the refined proposal with the public, adjusted the refined proposal based on feedback, and so on.

In Metro, Mount Vernon, and Oklahoma City, local officials had to give up some of their flexibility to decide the details of the tax on their own. In return, they gained community support by demonstrating that they were accountable to citizens' views.

CHECKPOINTS

- ✓ Get influential citizens involved early in determining the need for a new tax and how it might be used. These citizens might be especially helpful later in building community support for a new tax, if they determine a new tax is warranted.
- ✓ Use public outreach to learn the broader concerns of the general public. A new tax must satisfy these concerns to be successful. One of the primary considerations is whether the new tax is perceived as fair. Another primary consideration is whether people will see a "return" on their tax money where they live.
- ✓ After you learn what these concerns are, make a concerted effort to address them and show people how you addressed them.



BUILD A NETWORK OF SUPPORTERS FOR NEW REVENUE MEASURES

A potential new tax will benefit from a strong base of support outside the local government.

For many local governments, it is illegal to advocate directly for a tax being proposed on the public. Even if it weren't, local government officials may not always be the most credible advocates with every audience because local officials may be perceived as likely to gain from a tax increase, even if the officials who live in the community pay the same taxes as everyone else. Hence, a potential new tax will benefit from a strong base of support outside of the local government. Having a network of supporters provides flexibility for members of the community to promote the tax while remaining accountable to prohibitions against local government officials directly involving themselves in promotion.

In Mount Vernon, the participants in the city's study group created the "Citizens for Mount Vernon" campaign committee. The committee raised funds to support the tax levy campaign. Members also donated many hours of their own time to meet with community service clubs, develop promotional materials for mailers, and conduct grassroots activism by talking with the public and educating them on the needs of the city government.

The local chamber of commerce assisted Oklahoma City's tax initiative by supporting a campaign in favor of the tax. The tax initiative also received support from the police and fire employee unions and benefited from a favorable editorial in the local newspaper. City officials' efforts to focus the tax on services that the public had expressed favor for was helpful in garnering the support of these groups.

Members of the business community were also important supporters of new taxes in many of our case studies. Not only are business owners often some of the more influential members of the community, they may have concerns about how a new tax could impact their business. For instance, owners of a retail store or hotel might be concerned about a new retail sales tax or hotel tax, respectively. If their concerns aren't addressed, they might actively oppose the new tax. The City of Roanoke, Virginia, for example, implemented a new meals tax to support public schools. The city worked with local restaurants to develop a campaign to encourage the public to "eat for education" at local establishments, which helped ameliorate local merchants' concerns with the tax.¹⁷

Earlier in this paper, we discussed the creation of the Broward County Children's Services Council (CSC) and an associated new tax. The CSC was first formed in 2001, but it was required to seek reauthorization with voters in 2014. The CSC collaborates extensively with other organizations to achieve its mission. This process starts with a county-wide strategic plan for children's services. Many other organizations are integral participants in the development and implementation of the plan. The plan identifies issues that CSC and its partners will address. An example issue is domestic violence. CSC and other organizations with a special interest in addressing domestic violence will then design and implement a strategy to reduce it.

This approach to conducting the business of the CSC meant that there was already a wide network of other organizations with a strong stake in the CSC's continuation. Thus, the CSC only had to activate this network in support of the reauthorization, rather than building a base of support from scratch. For instance, the nonprofit service providers made sure that their clienteles knew the role of the CSC in providing the service. This support helped the CSC garner 76% approval in the reauthorization vote; CSC officials believe it could have been higher if not for a disadvantageous placement on the ballot.

Finally, local governments can make it easy for their supporters to do their work. LA Metro needed to cut through the frenetic media environment of Los Angeles in order for voters to come out in favor of the tax measure. Like most other local governments, LA Metro was legally prohibited from advocating for the tax itself. LA Metro, however, had an array of people and organizations willing to advocate for the tax on its behalf. Metro supported them in ways such as:

- Focusing the new tax and the projects it would fund on addressing a specific problem of great concern to almost all Los Angeles residents: traffic congestion.
- Providing emotional stories about the “soul-crushing” amount of time Los Angeles residents spend in traffic. Numbers and statistics will not be enough for many to be convinced of the need for a new tax and service.
- Documenting the economic impact the new transit projects would have, such as the creation of 465,000 new jobs.
- Following a transparent and fair process for deciding which capital projects to construct and in what order, so that no region felt that it was being treated unjustly. In fact, procedures to ensure fairness were written into the proposed ordinance for the tax measure.
- Continuing to poll the public to provide up-to-date insight on its view of the potential tax.

Even if local government officials can’t advocate for a tax, that does not mean that they must remain passive

bystanders. Local officials can educate and provide impartial information. They can also encourage everyone to vote. LA Metro’s CEO recognized that there is a line to walk when it comes to advocacy versus education and it is important to stay on the right side of that line—but if local leaders are timid and stay too far away from the line, then it will be very difficult to counter the inevitable opposition and misinformation that arise in response to any new tax proposal. As such, Metro did the most it could to educate and encourage voting. For instance, Metro’s CEO met with many stakeholder groups to explain Metro’s plan and educate the public on how the new tax would be used. Metro also set up a text messaging service to remind citizens about their opportunity to vote.

Local officials can also show how local government will provide accountability for how a new tax will be used. This will help attract supporters. Earlier, we saw the strategic planning and budgeting process could be used in this way. Our conversation with a public opinion research firm shows that citizens also respond well to the prospect of independent audits and to providing direct citizen oversight of how the revenue is used.¹⁸ Local governments already perform independent audits, so this may simply be a matter of publicizing existing auditing practices—and perhaps adjusting the reporting approach to make it easy for citizens to see where the new tax fits in. Many local governments also already have a finance committee that is subsidiary to the elected governing board. This group could provide the public with assurances that monies from the new tax are being used as promised.

CHECKPOINTS

- ✓ Consider if citizen involvement in studying the need for new revenue can be parlayed into active support for the tax later (assuming a compelling need was identified).
- ✓ Consider if there is a role for the business community in supporting a new tax. Their involvement was instrumental in many of our case studies, particularly for organizing and funding campaigns to support a new tax. Your network of support should not be limited to the business community, however. Usually the broader the network, the better.
- ✓ Invite organizations to take a meaningful role in your strategic planning process and in executing the plan. This will create a ready-made network to rely on should you need to generate support for new revenue measures.
- ✓ Develop a body of facts and personal stories (with emotional appeal) that supporters can use to inform and convince others of the benefits of the tax and services it will provide. This will be easier to do if the tax is connected to a specific service or community goal.



DEMONSTRATE THAT THE TAX PRODUCES VALUE FOR THE PUBLIC

Connecting a
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The public will be more likely to support a tax if it believes that its contribution to the public budget will produce value for the community. In other words, if citizens can see that government is being held accountable for providing valuable results, they are more likely to trust that local officials can be given the flexibility to take money out of the private economy to support public services.

Connecting a tax to a particular service or services makes it easier to demonstrate value. For example, in Plant City, residents can easily observe the difference in road quality before and after the new tax, as shown in the photos below.

Of course, many public services don't produce a benefit that is as obvious as a newly paved street. Children's services is an example of one such service. Broward County Children's Services Council (CSC) uses a strategic planning and performance measurement technique called "Turn the Curve."¹⁹ This method challenges local governments to look for ways to make a real difference in the lives of constituents. Local governments can do this by conducting investigations into the most effective programs and partnering with other organizations that may be able to help achieve the community's goals. It is called "Turn the Curve" because the intent is to make unfavorable trend lines on a graph change direction.

The CSC has a Turn the Curve report for each major issue addressed by its strategic plan. For example, one area within the strategic plan focuses on preventing abuse and neglect. The difference that CSC wants to make is for "children to live with safe and nurturing families." CSC's Turn the Curve report identifies the metrics CSC monitors, such as verified child maltreatment rate, types of maltreatment, and child deaths by preventable causes. The report then reviews CSC's analysis of the measurement results, CSC's and its partners' best ideas for improving these measures, actions that will be taken to put the ideas into practice, and a list of partners that can participate.

The Turn the Curve reports show how CSC is providing value to Broward County. This builds excitement and engagement among the other organizations that participate in CSC's strategic plan. We saw earlier that this network of participants was instrumental to CSC's reauthorization. The Turn the Curve reports also helped show the value of the CSC to the local business community. In fact, the local business community was impressed enough to form a political action committee for the reauthorization campaign and fund it at \$100,000.

Something like Turn the Curve will be most meaningful to people like leaders of businesses or non-profit organizations. The general public probably will not take much of an interest. The CSC, therefore, is also very intentional about making sure that program clientele know that the programs they participate in are “powered by CSC,” given that most programs are delivered by nonprofit organizations funded by the CSC. This makes the public aware of what the CSC does for them, even if they rarely, if ever, interact directly with its staff.

Finally, we saw earlier how part of Metro’s proposition to the public was to use the taxes to create benefits in the communities where citizens live, not just for the Los Angeles region broadly. Our conversations with a public opinion researcher suggests that citizens are not concerned with seeing a local benefit only from taxes levied by a large, regional government like Metro. Every government should show how citizens will see benefits from a tax in the place where they live. For example, citizens may be concerned that a new tax will be used to fund state government, rather than services in their own community.

EXHIBIT 2 | A STREET IN PLANT CITY BEFORE AND AFTER THE INCREASED PROPERTY TAX FOR STREETS



Demonstrating an improvement in service after a tax will garner more public support for the tax.

CHECKPOINTS

- ✓ Demonstrate to the public that their taxes are producing value. The more tangible and concrete this demonstration, the better.
- ✓ Use a rigorous approach to how you plan your services (like CSC’s Turn the Curve); this could impress other organizations that are well-placed to support you (e.g., the business community, community organizations, etc.).
- ✓ Build awareness among program clientele of the benefits they are getting from local government and the new tax.
- ✓ Give the public assurances that they will see better services in the community they live in as a result of a new tax.





NO ONE TYPE OF TAX STANDS OUT AS MOST POPULAR

Local governments can gain more support if they keep the taxing mechanism simple.

One thing we couldn't identify as a critical feature for a new tax is that it be a particular type of tax, such as property, sales, etc. Our research into California ballot initiatives did not reveal any type of tax as universally more popular than others. We looked at the four most common taxes that were the subject of California revenue initiatives: property tax, sales tax, utility tax, and hotel tax. The level of support for all four were very similar.

In fact, the only significant difference we found was that hotel taxes that had a specific purpose did significantly worse than sales taxes with a specific purpose (6.7 percentage points more support for sales taxes).²⁰ This could be because hotel taxes were sometimes proposed for supporting tourism, which may have been less compelling to voters than recreation, public safety, transportation, or other purposes that sales taxes were used for. Otherwise, it is interesting that hotel taxes garnered no more support than other taxes. The conventional wisdom of public finance sometimes suggests that hotel taxes would be more popular because they present the opportunity to "export" the costs of local government to people who live outside of the community and can't vote (i.e., hotel guests). Yet it appears that voters may not, in fact, always make this calculation when they are in the voting booth! Perhaps this is a function of the effectiveness of educational campaigns around the new tax proposal.

It is worth noting that sales taxes were the most commonly proposed type of new tax. This suggests that local governments perceive (perhaps supported by local polling data) that their citizens would be more receptive to a proposal for a new sales tax than other taxes. Furthermore, our California data does not take into account factors that might influence a municipality's decision to propose a certain type of tax. For example, if a municipality already has an appreciably higher sales tax rate than its neighbors, then it might not want to propose an even higher sales tax rate and might instead pursue an entirely different type of tax.

Our conversation with a public opinion research firm supports the popularity of the sales tax.²¹ Its staff's experience is that citizens are usually more receptive to sales taxes. This is because the amount of money involved sounds small: cents or even fractions of cents on every dollar of sales. Also, the tax is easy to understand: you buy something, you pay a tax of a given percentage on the purchase price. The broader lesson here may be that local governments can gain more support for revenue-raising proposals if they keep the taxing mechanism simple and propose to raise revenues from the public in smaller charges throughout the year rather than in a few larger charges.

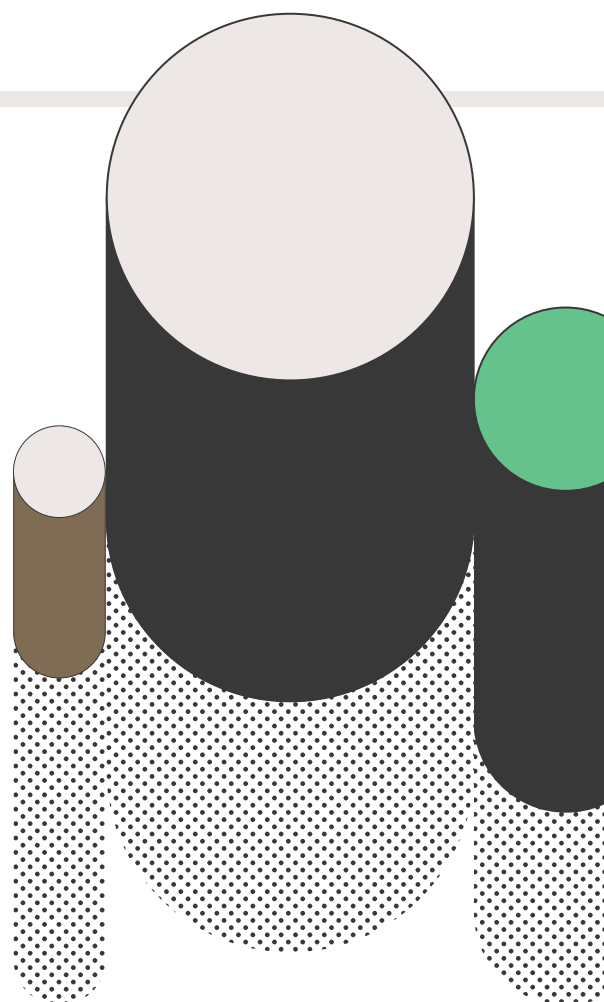
In examining the California revenue data, we did find another tax that seemed to be more popular with the public than others: a business tax. Business taxes are not nearly as commonly proposed as the other taxes we described above because state laws in California limit the revenue-raising potential of business taxes. When a business tax was proposed, however, it tended to garner between 5.0 and 2.5 percentage points more support than the other taxes.²² About two-thirds of Americans believe corporations pay too little tax.²³ Perhaps this leads to higher public support for local proposals to tax businesses.

Finally, for any revenue source, local officials may want to consider if the tax is dependable enough given

the type of service that is proposed to be funded. For example, programs to help children often need to be provided consistently over multiple years to have an effect. Hence, a more consistent revenue would be helpful. Programs to maintain assets may have more flexibility to be accelerated or deferred according to revenue availability, so a less-consistent revenue source could more easily be a viable funding mechanism. This matters because if revenue dependability negatively impacts service quality, then it will impede the local government's ability to show it is producing valuable results.

CHECKPOINTS

- ✓ When it comes to the major taxes local governments usually levy (property, sales, hotel, utility), we could not find much difference in public support based on which type of tax was being proposed.
- ✓ According to a public opinion research firm, sales taxes are proposed more often because they poll better with the public. The public reacts more favorably to sales taxes because the method of taxation is simple and the amount of money involved for the average citizen does not appear to be large.
- ✓ Taxes on local businesses appeared to be slightly more popular than the more conventional taxes described above.



CONCLUSION

The public could be willing to support new revenues—if the conditions are right. We saw that gaining that support often requires finding a balance between: 1) the accountability of local government officials to the public and 2) the flexibility of public officials to act. This article suggested that the following practices can help achieve that balance:

- **Associate the Tax with Important Service(s).** Taxes garner more support when they are associated with specific service(s), and that association will be most powerful if the public can appreciate the difference that service will make in their lives. Local governments, though, should be careful not to overly constrain their revenue streams by putting legal restrictions on the revenue use. Doing so reduces flexibility to adapt to changing conditions. Hence, one of the best ways to associate taxes with valued services is to budget in a way that shows citizens how revenues help achieve important community goals.
- **Limit the Duration of the Tax.** A tax with an expiration date sometimes garners more support than one without, but not always. If a local government does put a firm expiration date on the tax, it should be mindful of the long-term consequences of funding ongoing services with a temporary tax. When the tax expires, a deficit could appear in the budget.
- **Engage Citizens to Help Define the Need for New Revenues.** Getting the public involved early can help a local government design a tax that will be acceptable to citizens.
- **Build a Network for Supporters for New Revenue.** Local government is usually legally prohibited from advocating directly for a tax. Engage other people and organizations to advocate on your behalf. This will be easier to do when the local government's process for strategic planning includes other organizations as true partners, because these organizations will have a stronger connection to the work of local government.
- **Demonstrate that the Tax Produces Value for the Public.** Show that the tax is accomplishing good for the community. This could be through concrete, physical demonstrations like new infrastructure. It could also be done through a rigorous and inclusive process for planning services and monitoring the impact they have on the community's goals.

Endnotes

- ¹ In California, when revenues are proposed for specific purpose, then the local government must achieve two-thirds approval. In the data we examined, about 54% of these initiatives were approved by voters.
- ² All figures in this section were calculated by GFOA using raw data on election results supplied by Michael Coleman of CaliforniaCityFinance.com.
- ³ Peter Self, *Administrative Theory and Politics*, 2nd ed. (New York: HarperCollins, 1977).
- ⁴ GFOA conducted a statistical difference of means test to evaluate the strength of this finding, where we compared average levels of voter approval for ballot questions that pledged the revenues to a particular use versus those that didn't. We found that there was almost no chance that a difference as large as we observed could be due to just chance or luck. In statistical science, a common measure of the strength of a finding is the "P value," which essentially tells us the probability our find could have occurred just by luck. The P value in this case was less than 0.001. It worth noting that we did not make allowances for general revenue provisions that only suggested a revenue could be used for a particular purpose, but stopped short of a pledge. If that ballot wording strategy does have the effect of increasing approval rates, then our findings actually underestimate the power of associating a tax with an important purpose.
- ⁵ Personal interview with John Fairbank of Fairbank, Maslin, Maullin, Metz, and Associations. August 22, 2019.
- ⁶ The statements are based on statistical difference of means tests. The difference in support for school funding had strong statistical support (the P value was less than 0.001). The finding for the police funding had much weaker support, but was still strong enough to be considered statistically significant (the P value was 0.03).
- ⁷ Personal interview with John Fairbank of Fairbank, Maslin, Maullin, Metz, and Associations. August 22, 2019.
- ⁸ Knight Foundation. (2010). *Soul of the community 2010 – Why people love where they live and why it matters: A national perspective*. Miami, FL. Hyunga Oh and Jong Ho Hong. "Citizens' trust in government and their willingness-to-pay." *Economics Letters*. 115 (2012) 345 – 347.
- ⁹ These two values are widely accepted in research literature as the basis for making social judgements. Some researchers replace the term "values" with "warmth." Because this book focuses on trust in institutions, we chose "values." A fuller discussion of values and competence as the drivers of trust can be found in *Organization for Economic Co-operation and Development (2017). Trust and public policy: How better governance can help rebuild public trust*. Paris, France: Author.
- ¹⁰ Chris Fabian, Jon Johnson and Shayne Kavanagh. "The Challenge and Promise of Program Budgeting." *Government Finance Review*. October 2015.
- ¹¹ For our two cases with a significant effect, the P value was 0.001.
- ¹² Personal interview with John Fairbank of Fairbank, Maslin, Maullin, Metz, and Associations. August 22, 2019.
- ¹³ Ibid.
- ¹⁴ Kristen Korosec. "The 10 Most Congested Cities in the World." *Fortune.com*. February 6, 2018.
- ¹⁵ Information on Metro's experience are from: "How To Pass A Mega Transportation Measure: La County's Measure M Lessons Learned," paper published by LA Metro and available on its website.
- ¹⁶ "Who is a Real American? Overwhelming Agreement on the Answer." Grinnell College. December 3, 2018. <https://www.grinnell.edu/news/who-real-american-overwhelming-agreement-answer>
- ¹⁷ Ann H. Shawver. "Eat for Education: Roanoke, Virginia, Provides Fiscal First Aid for K12 Education." *Government Finance Review*. December 2010.
- ¹⁸ Personal interview with John Fairbank of Fairbank, Maslin, Maullin, Metz, and Associations. August 22, 2019.
- ¹⁹ Based on: Mark Friedman. *Trying Hard is Not Good Enough: How to Produce Measurable Improvements for Customers and Communities*, 3rd Edition. CreateSpace Independent Publishing. 2015.
- ²⁰ The P value was 0.003.
- ²¹ Personal interview with John Fairbank of Fairbank, Maslin, Maullin, Metz, and Associations. August 22, 2019.
- ²² The business tax exhibited a significant difference from the sales and hotel tax (P value less than 0.002). There was a weaker relationship relative to the utility tax, but it was still strong enough that we elected to mention it (P value of 0.069)
- ²³ As per an April 18, 2017 article at gallup.com ("Majority Say Wealthy Americans, Corporations Taxed too Little" by Frank Newport), 67% of Americans believe corporations pay too little in taxes.



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