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RETHINKING REVENUE

PART 2

RETHINKING LOCAL GOVERNMENT REVENUE SYSTEMS

The criteria for evaluating options for a local government revenue system

For more information, visit **gfoa.org/rethinking-revenue**

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RETHINKING REVENUE

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ABOUT THE RETHINKING REVENUE PROJECT

Local government revenues must adequately fund the public services that a community desires without creating excessive inefficiencies on unfairness in the revenue raising system. However, local government revenue structures are largely based on assumptions that no longer hold today due to digitization, globalization, demography, political changes, and other trends. Furthermore, fairness is becoming an increasingly important concern for public finance. It follows that this concern should include how revenues are raised. For these reasons, the Rethinking Revenue project is taking a fresh look at how revenues are raised. The project will raise new and interesting ideas like those featured in this paper and will produce guidance for state and local policy makers on how to local government revenue systems can be modernized. We hope the ideas presented in this paper will spur conversation about the possibilities for rethinking revenue.

The Rethinking Revenue initiative is a collaborative effort involving:

- American Planning Association (APA)
- Government Finance Officers Association (GFOA)
- International City/County Management Association (ICMA)
- National Academy of Public Administration (NAPA) Center for Intergovernmental Partnerships
- National League of Cities (NLC)
- Center of Municipal Finance at the University of Chicago's Harris School of Public Policy,
- Government Finance Research Center at the University of Illinois at Chicago's College of Urban Planning and Public Affairs

Part 1 of the **Rethinking Revenue initiative** was about defining the problem that local governments' revenue systems create for local governments and their taxpayers and ratepayers. In short, local government revenues have not remained aligned with modern economic realities. This contributes to distortions in the economy and unfairness in how taxpayers are treated. An antiquated revenue system impacts local governments' ability to provide services critical to the needs of their communities.

There are many options for how local government revenues could be changed. To help guide us toward the best options, Part 2 is dedicated to developing a set of evaluation criteria. These criteria will help us differentiate between how local governments *could* raise revenue and how they *should* raise revenue. How local governments *should* raise revenue is not just or even a technical question of economics or finance. As we will see, questions of fairness and accountability of local government to the public are critical. The criteria will be used by the Rethinking Revenue initiative to evaluate suggestions we have for state and local governments as our initiative moves forward. More importantly, we hope that the criteria can encourage a reexamination of local revenue by state and local government policymakers and help guide conversations about the future of local government revenue.

Isaac Newton said: "If I have seen further, it is by standing on the shoulders of giants." In this spirit, the Rethinking Revenue initiative started its Part 2 with the National League of Cities report, *Toward a System of Public Finance for the 21st Century*, which identified *Guiding Principles for a Public Finance System*.[1] We updated and adapted those ideas for the Rethinking Revenue initiative. We also would like to acknowledge the work of the National Conference of State Legislatures in its "Principles of a High-Quality Revenue System, 4th Edition."[2]

A Preview of Our Six Criteria to Judge Local Government Revenue

- **Fairness to taxpayers and ratepayers**
- **Accountability**
- **Adequacy of revenue production**
- **Impacts on the behavior of taxpayers and ratepayers**
- **Cost of administration**
- **Promotion of intergovernmental dynamics**

The purpose of the Rethinking Revenue initiative is to engage state and local government leaders in a conversation about better ways to raise revenue for local government. The criteria we describe in this paper are meant to set the terms for the conversation, not to settle a debate about which sources of revenue or methods of raising revenue are "best." As you read the criteria, you might come to doubt that it is possible to find a source that satisfies all the criteria. Your doubt would be well-founded for two reasons:

First, there are inevitable conflicts between criteria. For a revenue source to do well on one criterion, it may do worse on another. To illustrate, a revenue source associated with the public service it is intended to fund might give the public a sense of *accountability*. A local tax might be legally restricted to use for repairing streets. However, this might limit the source's contribution to the overall *adequacy* of the local government's revenue-producing capacity: If street repair becomes less of a concern in the future, then revenue would be tied to this now suboptimal use. There are even potential conflicts within the criterion. As we will see, people define "fairness" differently, yet *fairness* is essential for the continuity of a revenue system in a democratic government.

The criteria we describe in this paper are meant to **set the terms for the conversation**, not to settle a debate about which sources of revenue or methods of raising revenue are "best."

Second, the local government revenue system is complex. This means that there are many "moving parts," and those moving parts interact with each other. For example, an individual local government may have different revenue sources. Each source will perform differently against our criteria. Additionally, when all of those sources are considered together as one revenue portfolio, the revenue portfolio might perform differently against our criteria than any single source (i.e., the whole is *different* than the sum of its parts). Let's illustrate with our criterion of *fairness to taxpayers and ratepayers*. No revenue source can be fair to all people. Some people will be burdened more than others. However, if the same group of people is disadvantaged by every revenue source in the portfolio, the impact will be much different than if different groups of people bear the disadvantages of different sources. The former amplifies the disadvantage for the disfavored group, while the latter attenuates the disadvantage by distributing the disadvantages among many taxpayers and ratepayers. Of course, local governments don't exist in isolation. The behavior of other local governments adds to the complexity, but a more important consideration is the policy of state governments.

State governments play a special role in local revenue systems because, in the U.S. federal system of government, local governments receive their power and authority from their states. Therefore, local government revenue sources are created and regulated by states.* The requirement to align state policy with the revenue needs of local government complicates rethinking revenues but also provides the opportunity for experimentation with different revenue arrangements in different states.

This means that trade-offs and compromises will be necessary to create a better local government revenue system. Nevertheless, state and local government leaders can use criteria described in this document to 1) evaluate current and potential new revenue sources; 2) evaluate how those sources add up to a complete revenue system; 3) assure stakeholders that a comprehensive and transparent set of criteria guided the evaluation; and 4) reach decisions that satisfy as many conditions of an ideal revenue-raising system as is practical, while reflecting the values, preferences, and needs of the community.

*Even for local governments with "home rule" power, home rule power is ultimately granted by state government.

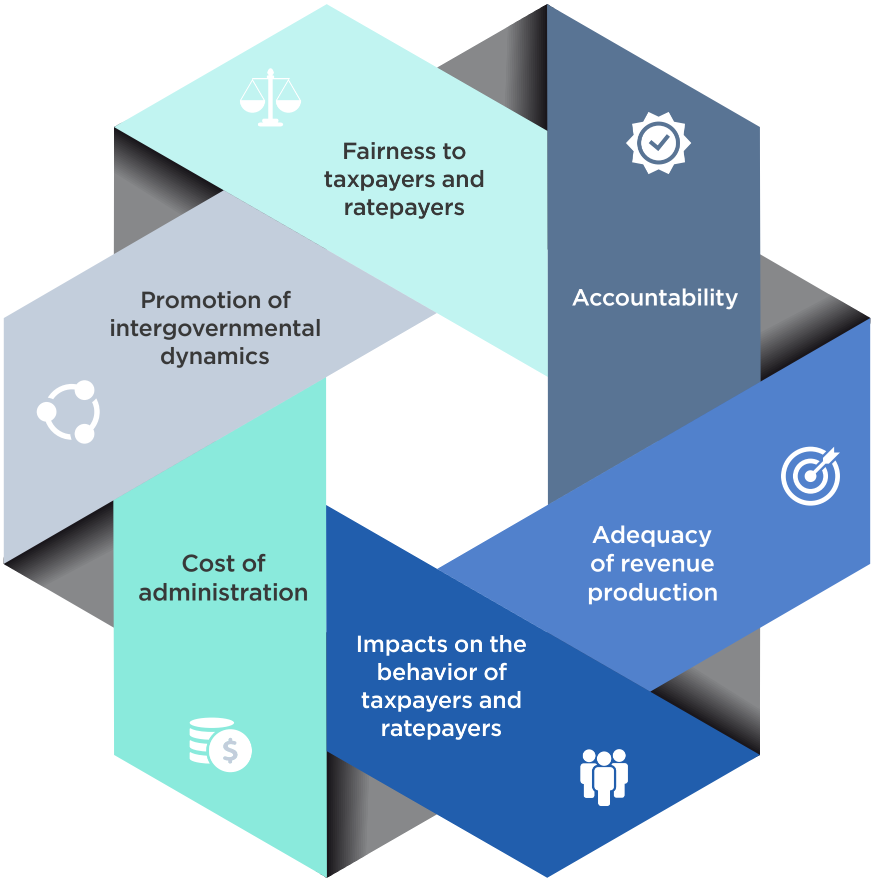
Criteria to Evaluate Local Government Revenue

The rest of this paper is dedicated to exploring our six criteria to evaluate local government revenues. Each criterion is concluded by a set of "questions and conversation starters" to show how to apply the criteria to real-world questions about local government revenues. These questions, though, are not meant to be comprehensive. The reader is encouraged to think about other questions these criteria might raise for starting a conversation that reflects local circumstances.

The reader should also consider how the criteria (and the questions and conversation starters) might take on a different character when used to evaluate a complete revenue system versus an individual source. A "source" is one particular means through which a government raises revenue, like the property tax. The "system" is the portfolio of all revenue sources a local government has, plus the impacts of the policies of other governments, particularly state governments. We suggest that the criteria are useful for evaluating both systems and individual sources. The fact that they might apply differently to systems versus sources can help reveal the complexities in rethinking revenue.

Finally, consider that the criteria are not necessarily "goals" for a local government revenue system. This is because the criteria invite discussion of the trade-offs that must be made. A goal implies the intent is to optimize across all criteria. The criteria aim to help balance the competing and conflicting forces at work.

SIX CRITERIA TO JUDGE LOCAL GOVERNMENT REVENUE



Fairness to Taxpayers and Ratepayers

Fairness is essential to a public finance system.[3] For revenues, fairness focuses mainly on the balance between how the responsibilities for funding local government are distributed among people and the right to benefit from the services and infrastructure that taxes and fees pay for. This means fairness can be difficult to achieve and often requires trade-offs and compromise. A starting point is to recognize the two views of fairness that are most germane to this potential conflict: equity and proportionality.[4] We will discuss the nuances of these views of fairness. First, we should recognize that though nearly everyone believes in a mix of equity and proportionality, people will lean more toward one or the other based on personal moral beliefs.[5]

Equity. The equity principle states that taxpayers or ratepayers should be treated differently to compensate for different circumstances and/or the need for help from the government to alleviate disadvantages faced by the taxpayer or ratepayer.[6] Perhaps the most relevant use of this principle to a local revenue system is treating taxpayers or ratepayers differently based on their ability to pay. This would hold that taxpayers/ratepayers of lower income or wealth should pay less than higher income or wealth payers. This could apply to individuals or classifications of taxpayers/ratepayers, like one industry group or another. A widely recognized example is the United States income tax system, which charges a higher tax rate to higher-income people.

Another use of this principle could be to recognize and address disparate impacts between groups (e.g., income, gender, race, ethnicity). For example, fines charged by local governments often have a disparate impact on low-income people and minority groups.[7]

One last use of equity is that the generation of taxpayers who benefit from a service should pay the costs of that service and not transfer the cost to future generations. This would be an argument against under-taxing current taxpayers and deferring costs to the future.*

*It is also an argument against spending too much on services, but the focus of this paper is revenues, not spending.

Fair Decision-Making

Our *fairness* criterion focuses on how resources are distributed. A broader conception of fairness includes "procedural justice." Procedural justice is the sense that the process used to reach a decision was fair. Procedural justice is critical because people are much more willing to accept a decision or action that goes against their self-interest when they perceive that the process that led to the decision was fair.

Making changes to local government revenues will almost always leave someone worse off than they were before: Perhaps someone will pay more taxes or someone will get fewer resources for public services if taxes go down. This means that the process to decide which changes will be made must be seen as fair. One requirement of procedural justice is to have clear decision-making criteria, which this report provides.

Proportionality. The proportionality principle states that a taxpayer or ratepayer should feel that the benefits produced by public services are relative to the size of the financial contribution they are making to the public services provided (in the absence of limiting circumstances).[8] We can see this principle in action with many fee-for-service arrangements. For instance, someone who pays a higher water bill typically consumes more water. More broadly, proportionality speaks to whether the taxpayer feels that the portfolio of services provided seems fairly priced relative to what they pay.*

There is widespread agreement among the public that everyone should pay their fair share of taxes.[9] Hence, an important part of the proportionality principle is that a taxpayer or ratepayer should feel their burden is fair relative to what other taxpayers or ratepayers are paying.[10] Fairness is defined by everyone paying "their fair share." "Fair share" cannot be precisely defined. It comes down to everyone contributing resources, in some form,** to the provision of public services and not, unfairly, avoiding what is a civic duty. This would be an argument against, for example, tax exemption systems that allow some people to secure a lower burden for themselves relative to people in similar circumstances. To illustrate, some states provide property tax discounts to homeowners but not to renters, even though each might have a similar income.†

The elements of fairness will not always be compatible. The equity principle supports a concern to protect financially vulnerable people whose ability to pay for services is low, even for necessities. This concern can conflict with proportionality, which suggests pricing and user fees that seek to assign the costs of services to people who use the services. We should also reiterate that one's moral values will determine whether one tends to favor proportionality or equity. People with a politically liberal outlook tend to define fairness, generally, as to the extent to which people are cared for. When it comes to revenues, this expresses itself as a preference to define fairness as to the extent to which low-income people pay less for public services than those with greater means (equity). Meanwhile, people with a conservative outlook tend to define fairness in terms of the extent to which people live up to their responsibility to their group or to help maintain the community. This manifests itself in a preference for proportionality in revenues.[11] Again, this highlights that the design of a local revenue system will necessitate hard choices, compromise, and **creative thinking**.‡

Questions and Conversation Starters About Fairness to Taxpayers and Ratepayers

- To what extent does the revenue system (or individual source) burden the taxpayers and ratepayers who can afford to pay?
- Are lower-income earners or other disadvantaged groups disproportionately burdened by the revenue system or source in some way?
- Do taxpayers/ratepayers see benefits from public services commensurate with the amount of their contribution?
- Does the revenue impose similar burdens on taxpayers/ratepayers of similar circumstances?

*This is *not* to suggest, for example, that a wealthy household that pays 10 times the taxes as an average household should get 10 times the benefits of the average household. We are suggesting that our hypothetical wealthy household must feel, on some level, that their taxes are "worth it." Otherwise, the wealthy household could be expected to withdraw their participation from the system. This is supported by experimental evidence known as "the public goods game" and is discussed in more detail in GFOA's **Financial Foundations for Thriving Communities**.

**For example, low income people may not pay income taxes, but would pay local sales or property taxes, so are contributing to the provision of public services.

†We recognize that renters don't typically pay the property tax directly, but the cost of the property tax is passed on to renters with the end result being that, all else being equal, renters could pay a higher price for housing due to different treatment by the property tax code. We also note that homeowner exemptions are given for primary residences. A more in-depth discussion of this is available at the "Property Tax Homestead Exemptions Brief," Institute on Taxation and Economic Policy. September 1, 2011.

‡The hyperlink leads to a paper from the Rethinking Revenue initiative on "segmented pricing," which could be a way to satisfy both liberal and conservative definitions of fairness when it comes to fines and fees.

Accountability

Government officials are held accountable by the public for providing certain services at a certain price, defined as taxes and fees. If the revenue system is not accountable to the public's expectations of government, then public support for the revenue system will suffer. Public officials must deliver on this expectation of *accountability*. In this way, *accountability* supports our criteria of *fairness*: If the *accountability* criterion is not met, it is less likely that taxpayers will feel their contributions are fairly priced relative to what they pay. Hence, a revenue system must be accountable directly to the public and give public officials confidence that they can demonstrate accountability to the public.

Accountability has two key facets. First is the ease with which tax and rate payers can grasp how a tax or fee is charged and comply with it. For example, one reason the property tax is viewed as less popular than other local government revenues is the inconsistency of how properties are assessed.[12] The second is how easily taxpayers can surmise that local governments are using revenues to provide services they value. This second point of accountability could represent a point of integration with a local government's budget process,* but the revenue source itself could also provide some form of accountability. There is evidence that proposed new taxes garner more voter support when the proposed tax is associated with specific service(s).[13] For example, a tax that supports social services or education could show *accountability* by linking the tax to the service and by showing that the social services or educational programming is achieving their goals.

*The budget and spending is beyond the scope of Rethinking Revenue, but readers interested in budgeting and spending are encouraged to visit **Rethinking Budgeting**.

Questions and Conversation Starters About Accountability

- Can the revenue and its impact on the individual taxpayer/ratepayer be easily understood by a non-expert?
- Can the public easily comply with the requirements placed on the revenue?
- Can public officials and citizens see how the revenue system or source funds services that create value for the community?
- How can public officials and citizens have assurances that the local government is not overtaxing?

Adequacy of Revenue Production

Adequacy deals with whether the tax system and individual tax/fee sources generate enough revenue to finance public services and meet the community's needs. Of course, we must recognize that any public financing system must balance the demand for public services against taxpayers' and ratepayers' willingness to pay for public services. A revenue system should provide a local government with options to raise revenue consistent with the public's willingness to pay.* These options are a function of legal authority, provided by the state, as well as the ability of the local tax base to bear the financial burden.

Further, those sources should be able to adequately fund services through periods of national and regional economic volatility. This mainly refers to economic cycles (e.g., recessions and expansions) and the adequacy of resources to local government through multiyear economic cycles.** A revenue could provide adequacy across economic cycles by remaining stable through economic downturns or by providing additional revenue during upturns that local governments can build up to weather downturns. A revenue source also contributes to adequacy when its performance is uncorrelated with the performance of other revenues in the revenue system. This is the essence of diversification.

The concern about the adequacy of revenue despite volatility also applies to other shocks and stressors. For instance, the composition or behavior of the tax base can change, such that revenues could become obsolete unless revenues can adapt with the times to better reflect how value is created in the economy. The recent COVID-19 pandemic illustrates this. In 2018, a Supreme Court decision authorized taxes of online sales.[14] This helped local governments realize adequate revenues in 2020 through the shock caused by the COVID-19 pandemic, despite sales migrating to online merchants.

*GFOA's **Rethinking Budgeting** initiative has more to say about determining the local government's spending needs.

**This could also refer to incidents other than recessions. For example, the closure of a major employer in the region would likely have a big impact on local government revenue.

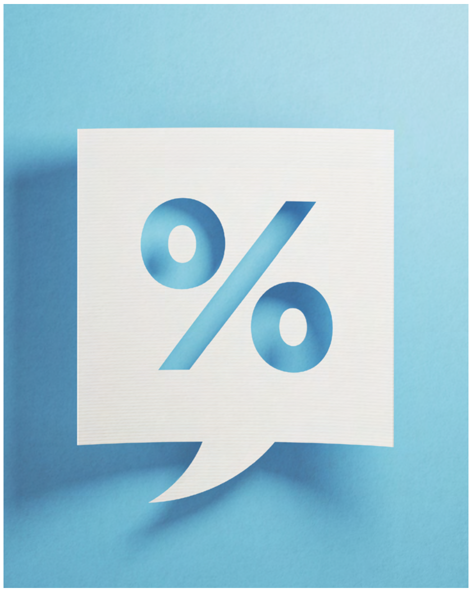
Questions and Conversation Starters About Adequacy of Revenue Production

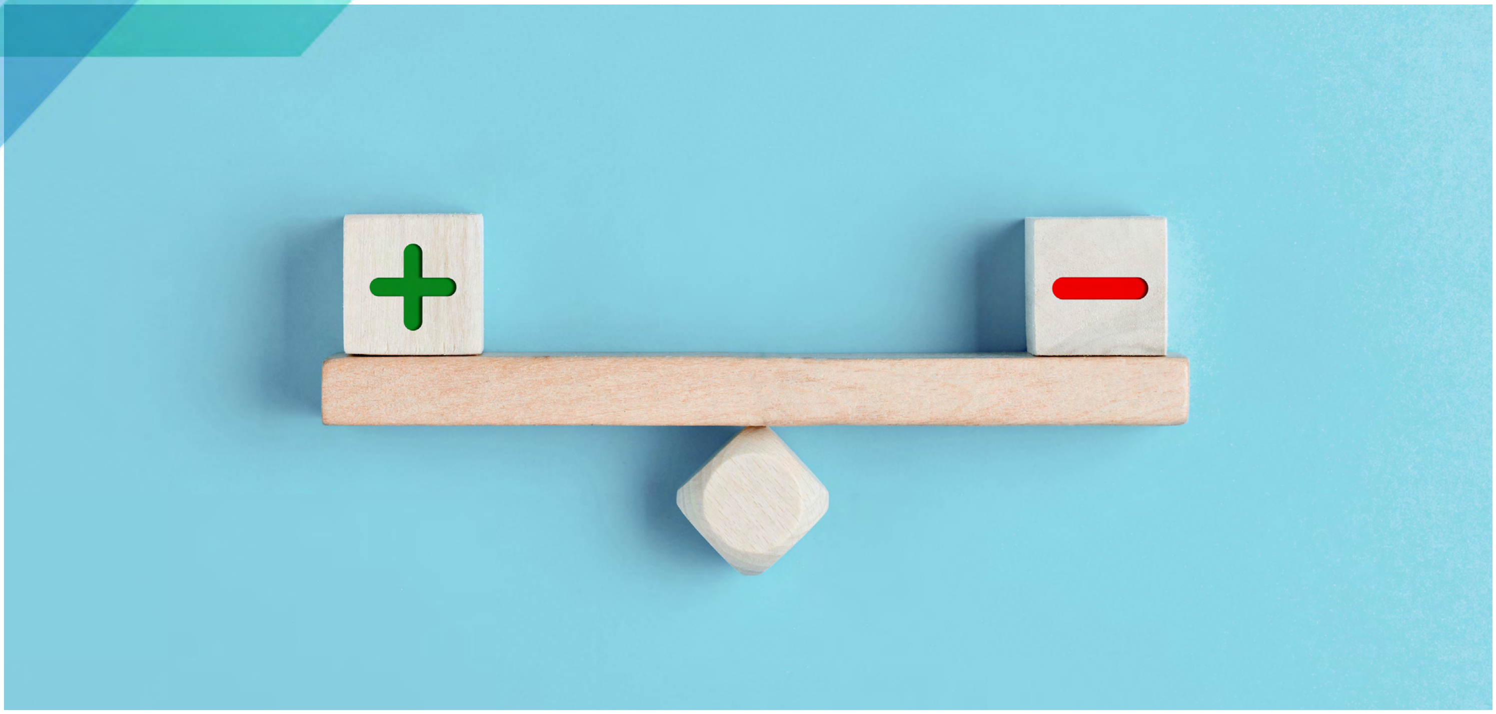
- How closely does the revenue system reflect the main sources of economic activity and value creation in the economy?
- Does the local government have a sense of what the public is willing to pay for public services and how much is too much?
- Does the local government have options to raise revenues in a way that is acceptable to the public? These options could include different sources of revenue. Or the options could address how a given source is administered and collected.
- In what cases are revenues best raised with a tax versus a fee?
- Does the revenue source or system provide either reasonable stability through economic cycles or the opportunity to put aside funds during the good times to weather the bad times?
- Does the revenue source contribute to a system wherein the productivity of the revenue sources that make up the system are not correlated with each other? This is the essence of diversification.
- Can the revenue system or source be adapted to changing conditions? Or will it be outmoded by changing technologies, consumer tastes, etc.?

What is the Public's Willingness to Pay?

The public's willingness to pay will vary from place to place, but the cliché is that the public doesn't want to pay anything for public services. This is not true. Consider that over 90 percent of Americans agree that "it is every American's civic duty to pay their fair share of taxes." Another perspective on this widespread consensus is that "the percentage of Americans who deny that taxpaying is a civic duty is nearly equal to the percentage of Americans who report believing that there is a chance that Elvis Presley is still alive (7 percent) or that the moon landing was faked (6 percent)."*

*Information for this section is from: Williamson, Vanessa S. *Read my lips: Why Americans are proud to pay taxes.* Princeton, NJ: Princeton University Press. March 2017.





Impacts on the Behavior of Taxpayers and Ratepayers

Taxes and fees can influence the behavior of the people who pay them. A high property tax might discourage investment in real estate or might encourage migration to low tax jurisdictions. High sales taxes might reduce the consumption of some commodities or might encourage consumption at another location. High marginal income tax rates might encourage an individual to relocate to lower rate jurisdictions. Or a tax might incentivize the local government to encourage certain types of land uses (e.g., shopping malls to increase sales taxes) at the expense of other types of land uses that would have a greater overall benefit to the community (e.g., industrial uses to create better jobs).

However, sometimes governments use taxes and fees to influence behavior in certain ways. For example, fees are put in place to limit demand for a service or change behaviors, and fines are meant to discourage a behavior entirely. To illustrate, a stormwater fee might be based on the volume of impervious surfaces (e.g., pavement) in a new construction project. By putting an additional cost on pavement, developers would create less of it. This would ease flooding in the area and promote better water quality. Other examples include taxes on plastic bags, aimed to reduce pollution, or taxes on sodas or cigarettes, aimed to reduce the health problems caused by the consumption of these items.

Finally, though almost all revenue sources have some impact on the taxpayer's/ratepayer's behavior, a complete revenue system can rely on many sources so that no single impact on individual behavior becomes too great.

Questions and Conversation Starters About Impacts on Behavior of Taxpayers and Ratepayers

- Does the revenue have a public policy goal besides raising revenue? If not, does its design reduce the impact on the behavior of taxpayers and ratepayers?
- If the revenue has a public policy goal besides raising revenue, how much impact on behavior might the revenue have? What is the potential for unintended consequences? Can the impact be monitored and the revenue adjusted according to what is learned?

Cost of Administration

Revenues cost money to raise. The ideal revenue minimizes this cost. Elements of cost include calculating the amount owed, collecting what is owed, and auditing what is received. Excessive costs could arise at any of these points, and some revenues present better opportunities to lower costs than others. The typical sales tax illustrates a few strategies to reduce the cost of administration. First, there is one tax rate applied to all sales that are subject to the tax, making it easy to calculate what is owed. Second, collection is the responsibility of the merchant making the sale, thereby reducing governments' cost of collection. Third, merchants can be the subject of tax audits rather than individual taxpayers, making audits more practical. These strategies don't eliminate the government's involvement in the administration of the sales tax but do economize it.

Questions and Conversation Starters About Cost of Administration

- For a new revenue, what new administrative capacity would be required?
- Can the economic activity being taxed be easily monitored and assessed?
- Are there potentials for economies of scale between governments to spread the fixed costs of administration over a larger tax base?
- Can the public be responsible for some aspects of administration, thus relieving government of the cost? For example, individuals file their own income taxes and merchants collect sales taxes.
- Does the tax or fee have the potential to result in large unpaid tax liabilities, thus creating collection costs and other problems?

Promote Positive Intergovernmental Dynamics

Local governments generate revenue in a complex intergovernmental system. The revenue system can affect how local governments work with each other and the state government. For example, "race to the bottom" or "beggar-thy-neighbor" are policies that some local governments engage in when reducing taxes to attract development.* Another example is that transparency** of tax and fee rates contributes to "tax competition" that might help prevent local governments from overtaxing. Other examples are state laws that limit increases rates of local taxes and fees or impose limits on what taxes or fees may be imposed.

Also, many services provided by a local government serve more than the taxpayers who live within local boundaries, so there are potential benefits from regional cooperation in funding and providing such services. Examples of services with the top potential for cooperative funding and provision include transit, wastewater treatment, water supplies, stormwater, economic development, recreation and cultural facilities, and affordable housing. Revenue systems can encourage regional service provision through arrangements for shared tax bases, for instance.

A local government revenue system can be judged on the extent to which it promotes positive dynamics between jurisdictions. For example, does a revenue fairly distribute the cost of services between jurisdictions? Is there a role for the state in distributing state-shared revenues in a way that makes up for insurmountable differences between tax bases of jurisdictions in the state?

*This is especially destructive when the tax reductions are used to lure development away from neighboring jurisdictions because the region is no better off in terms of total jobs created, the economic value produced by private enterprise, etc.

**If local governments and the public all know what taxes and fees each local government charges, there could be public pressure on any given local government to keep taxes and fees in line with neighboring jurisdictions.

Local government revenues are embedded in the state revenue system. This means that states and local governments compete for tax bases. Hence, a local revenue system should account for the impact of overlapping jurisdictions on taxpayers, such as overburdening part of the base or creating different rates and filing rules that increase the cost of taxpayer compliance. There may also be opportunities for economies of scale in collection when multiple levels of government rely on the same tax. Also, many state governments impose taxing limitations on local government. These limitations are often applied to local governments, without the opportunity for adjustment to local circumstances or economic cycles. Finally, an evaluation of a local government revenue system could be expanded to include the impact of the revenue system of overlapping jurisdictions. For example, what is the fairness of the entire state and local tax system for the individual taxpayer? Might regressivity in local taxes be offset by progressivity in state taxes?[15]

Questions and Conversation Starters About Promoting Intergovernmental Cooperation

- Does a revenue source "export" the negative impacts of the revenue to other communities? For example, a sales tax that incentivizes a municipality to encourage the development of a high-traffic shopping area on the border with other communities exports the cost of that traffic to the other communities.
- Does a revenue system encourage local governments to engage in a "race to the bottom" to attract development?
- Does the revenue system feature mechanisms to make up for disparities between jurisdictions with high service needs and low tax bases and jurisdictions with lower service needs and higher tax bases?

Conclusion

In this paper, we have presented six criteria to evaluate local government revenue sources and systems. As the Rethinking Revenue initiative moves forward, we will suggest practical steps that state and local governments can take to rethink local government revenues and change an antiquated system for the better. We will use the six criteria to evaluate our suggestions.

Most of all, we encourage local governments, state policymakers, and other interested parties to use this information to help guide a rethinking of revenues in their states and communities that 1) is inclusive of multiple points of view; 2) engages with the complexity inherent in rethinking revenue; and 3) supports affordable, financially sustainable, and, most of all, fair and accountable local governments.

ENDNOTES

1 "Toward a system of public finance for the 21st century: A framework for public discussion." National League of Cities. 2000.

2 "Principles of a high-quality state revenue system." National Conference of State Legislatures. Fourth edition, June 2001; updated June 2007. https://www.ncsl.org/research/fiscal-policy/principles-of-a-high-quality-state-revenue-system.aspx

3 Fairness is recognized as essential to local government finances, generally, by the GFOA's Code of Ethics and Financial Foundations Framework.

4 The "What's fair? Exploring the behavioral science of justice and fairness" series of research reports from the Government Finance Officers Association explores the facets of fairness that are germane to public finance, including procedural justice, interactive justice, and distributive justice. Distributive justice concerns how resources are distributed. Equity and proportionality are different ways in which distributive justice could be applied.

5 This is called "Moral Foundations Theory." For more on the application of Moral Foundations Theory to the question of fairness in public finance, see: Harward, Brian; Taylor, Alison; Kavanagh, Shayne. "What's fair? Equity, equality, and fairness"—Part 3 in a series of reports about exploring the behavioral science of justice and fairness. Government Finance Officers Association. 2021.

6 For additional discussion of the meaning of "equity" in public finance see: Harward, Brian; Taylor, Alison; Kavanagh, Shayne. "What's fair? Equity, equality, and fairness"—Part 3 in a series of reports about exploring the behavioral science of justice and fairness. Government Finance Officers Association. 2021.

7 Because fines are typically not proportionate to income, low-income people will pay proportionately more for the same infraction. Many minority groups are more likely to be low income. There is also evidence that minority groups are more likely to be assessed certain fines. See for example: Brazil, Noli. "The unequal spatial distribution of city government fines: The case of parking tickets in Los Angeles." *Urban Affairs Review*, 56(3), 823–856. 2020. Or see: Singla, Akheil; Kirschner, Charlotte; Stone, Samuel B. "Race, representation, and revenue: Reliance on fines and forfeitures in city governments." *Urban Affairs Review*, 56(4), 1132–1167. 2020.

8 Proportionality is at the center of one of the major theories of distributive justice in social psychology. Its core assertion is that when the ratio of outcomes to inputs is equal for all participants, people perceive that to be fair. See for example: Adams, J. S. Towards an understanding of inequity. *The Journal of Abnormal and Social Psychology*, 67(5), 422–436. 1963. See: Adams, J. S. Inequity in social exchange. In L. Berkowitz (Ed.). *Advances in experimental social psychology*, 2, 267–299. New York, NY: Academic Press. 1965. See: Huseman, R. C.; Hatfield, J. D.; Miles, E. W. A new perspective on equity theory: The equity sensitivity construct. *Academy of Management Review*, 12, 222–234. 1987.

9 For example, surveys have consistently found that "over 90 percent of Americans agree with the statement, 'It is every American's civic duty to pay their fair share of taxes.'" See: Williamson, Vanessa S. *Read my lips: Why Americans are proud to pay taxes*. Princeton, NJ: Princeton University Press. 2017.

10 According to Vanessa S. Williamson of Brookings in her book *Read my lips: Why Americans are proud to pay taxes*, "Because [Americans] see taxpaying as an important civic duty, Americans express outrage when they perceive others as failing to live up to this political obligation. Asked what 'bothers you most about taxes,' 67 percent of Americans say the feeling that some—either the rich, the poor, or corporations—are not paying their share. A mere 8 percent of Americans are bothered most by the amount of money they themselves pay....Like other civic commitments, taxpaying rests on a norm of 'ethical reciprocity': People are more willing to chip in when they think others are doing their part, too." GFOA's research shows reciprocity is essential to the survival of any common pool resource environment (and any complex system), like a local government.

11 Preferences of liberals and conservatives for equity and proportionality is based on Moral Foundations Theory. For more on this, see: Harward, Brian; Taylor, Alison; Kavanagh, Shayne. "What's fair? Equity, equality, and fairness"—Part 3 in series of reports about exploring the behavioral science of justice and fairness. Government Finance Officers Association. 2021.

12 Brunori, David. *Local tax policy: A federalist perspective, 2nd edition*. Urban Institute Press. 2007. Note that Brunori recognizes that there are additional reasons why the property tax is unpopular, but those reasons are beyond the scope of the context in which we cited his work.

13 Kavanagh, Shayne C. "New taxes that work: How local governments can raise new revenues." Government Finance Officers Association. 2019.

14 This was the South Dakota versus Wayfair, Inc. decision.

15 This paragraph was inspired by the work for the National Conference of State Legislatures in its "Principles of a high-quality revenue system." Fourth edition, June 2001; updated June 2007. https://www.ncsl.org/research/fiscal-policy/principles-of-a-high-quality-state-revenue-system.aspx

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