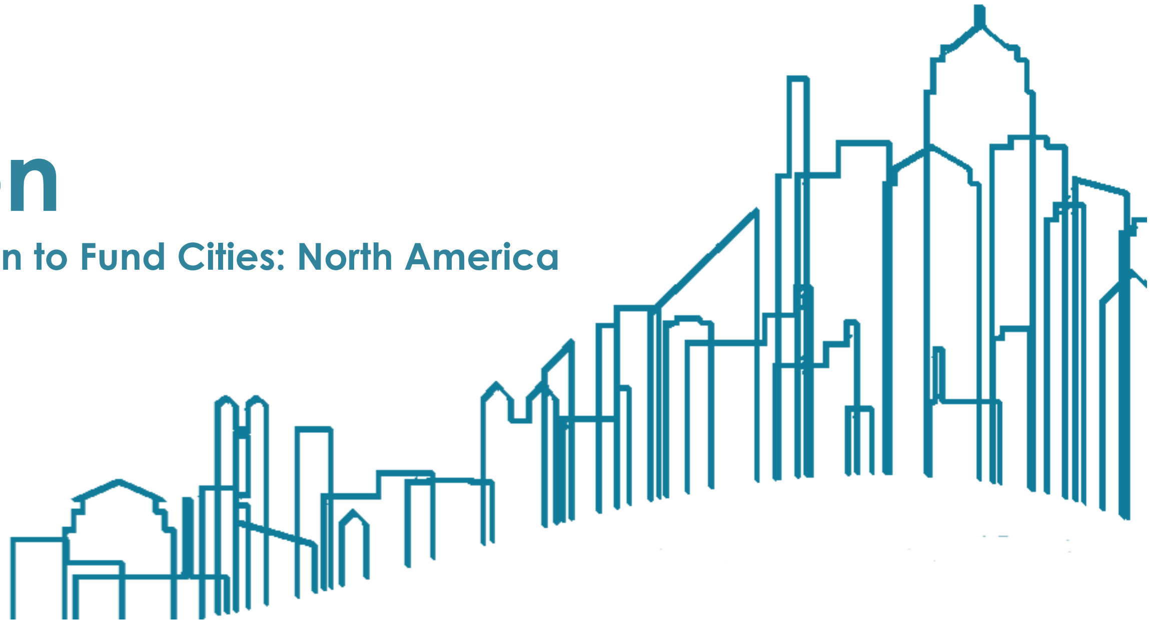
Taxation

A Financial Solution to Fund Cities: North America



"Continuing the MOST means that commuters and visitors to our city, who use our infrastructure every single day, but don't pay water and sewer bills, pick up some of the costs and pay their fair share." (Kasim Reed)

Local Option Sales Taxes

While general sales taxes have been levied by states as early as the 1930s, local option sales taxes (LOST) imposed by city-level authorities are becoming increasingly popular to raise funds for infrastructure investments as an alternative to the municipal bond market. Opponents to local option sales tax often claim that local government is simply trying to fill its coffers with the money in citizen's pockets and this depresses local economies and exacerbates fiscal disparities among municipalities. Nonetheless, in times of increasing financial pressures on municipalities, more and more U.S. cities are looking into LOST as a financial mechanism to drive urban development and certain cases, such as Atlanta outlined here, stand out as exemplary in their application.

Municipal Option Sales Tax

The Municipal Option Sales Tax (MOST) is a type of special-purpose local-option sales tax developed in the state of Georgia to finance capital outlay projects. In Atlanta, the tax was instituted in 2004 and reauthorized in 2008 and 2012 to finance repairs to the sewer and storm drainage system. The one-cent tax is applicable to goods sold in the city of Atlanta with the exception of several common items such as food purchased with food stamps, school lunches, motor vehicles, and sales to non-profit health care organizations, among others. The logic of the tax is to capture a sort of user fee from visitors and commuters to the city who use the water and sewage system but don't pay bills in the city. The sales tax provides for federally mandated infrastructure maintenance and upgrading within the context of the

Clean Water Atlanta Project. It can also be used to reduce water and sewer rates on a dollar for dollar basis. The MOST has accounted for federal disinvestment in infrastructure and allowed the city to meet its debt coverage for issued bonds and maintain affordable user fee rates for citizens.

Oklahoma City Metropolitan Area Projects (MAPS) Program

The MAPS program in Oklahoma City originated out of a voter-approved temporary one-cent sales tax. This tax adds one cent on every dollar to the sales tax already collected. This capital improvement program is used to fund the construction and renovation of sports, recreation, entertainment, cultural, and convention facilities. From 1993 to 1999, when the first MAPS sales tax expired, it financed such projects as the AT&T Bricktown Ballpark, the Cox Convention Center renovation, and the Bricktown Canal, among others. Over $309 million was collected from the tax, plus an additional $54 million from interest on the deposited revenue. Inclusivity of the population was a major element of the pilot program with the mayor appointing a citizen oversight board made up of 21 people who reviewed the financing and location components of the projects before making recommendations to the City Council. Oklahoma City is currently in a third cycle of the program known as MAPS 3 running from 2010-2017 and funding eight construction projects. MAPS 2 consisted of public school projects (dubbed “MAPS for Kids”). Citizen subcommittees remain a part of the process before City Council passes votes for the approval of MAPS 3 projects. Elected officials from Wichita, Kansas have taken interest in this model and have visited to learn more. Oklahoma City is thought to be the first American city to undertake a public facility enhancement project of this size. The changing urban landscape of Oklahoma City is a direct result of a local community investing in itself.

Land Taxes

In the late 1970s/early 1980s, Pittsburgh, Philadelphia reformed its property tax system to incorporate a relatively high land value tax. Several studies have concluded a positive impact of this tax on the economic development of Pittsburgh by deflecting reliance on raising other taxes that may have slowed development. The tax is credited with catalyzing higher building activity in the 1980s than other cities. Land tax as opposed to traditional property tax reduces the penalty of structural improvements and therefore encourages more intensive land use, which is heralded today as a pillar of green growth and development. Beyond the Pittsburgh case, land tax does not have very many supporters in the United States, with only 20 or so cities implementing this mechanism.

Tax-Increment Financing

> “In 2005, Illinois was home to 550 TIF districts, 130 in Chicago alone. Between 1991 and 2001, TIF revenue accounted for 38% of Minneapolis' revenues for economic development.” (Weber & Goddeeris 2007)

Tax-increment financing (TIF) is a strategy for value capture that allows for local governments to invest in infrastructure and recover the cost through capturing the increase in property tax revenues. TIF financing began in the state of California in the 1950s but is no longer used there due to numerous lawsuits and accumulated debt. It is, however, still widely used across the nation. Most TIF districts are initiated by developer’s willingness but can also originate from the municipality’s desire to develop an area that has been overlooked by developers or is too large to attract one developer. Essentially, future revenues pay for current expenditures as property value is assessed to provide a base value and held constant for a certain period. Developers are attracted to TIF districts for the TIF-funded public improvements to the area. As the site develops, it gains in value and when taxed, the difference between the initial taxed value and the new taxed value becomes the tax-increment which is used to finance any debt the local authority incurred in making improvements. Allocation of the increment remains the autonomous decision of the municipality making it a highly attractive tool from the point of view of local government. The main critiques of this strategy include the arguments that TIF districts promote gentrification, develop favoritism, displace residents, and make room for public money to be turned towards private development. To counter such arguments, the City of Chicago has expanded on the original TIF model to create the SBIF – Small Business Investment Fund (see box on the left).

Chicago's Small Business Investment Fund (SBIF)

The City of Chicago is quite fond of the TIF model and has expanded upon it to counter criticism that benefits of these districts go to large scale developers through bias and favoritism. The Small Business Investment Fund, launched in 1999, ensures that the tax increment also benefits existing business with local roots by earmarking gains for small business investment. Through the fund, the City can decide to reimburse up to 75% of qualified renovation expenses for small business located in TIF districts. The City's Department of Planning and Development decides if a TIF can be designated as a SBIF. Chicago counted 25 SBIF districts in 2006.

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