

**GEORGIA STATE UNIVERSITY  
ANDREW YOUNG SCHOOL OF POLICY STUDIES  
FISCAL RESEARCH PROGRAM  
OCTOBER 11, 2002**

**SUBJECT:** Revenue Options for Georgia Municipal Governments

**Analysis Prepared by David Sjoquist and Sally Wallace**

## **I. Local Fuel Tax**

A penny tax on fuel (gasoline, etc.) would generate about \$60 million statewide.

Presumably the money would be spent for transportation purposes, but that could be defined broadly to include sidewalks, bike trails, and roads. (Using it for public transit raises the issue of whether MARTA should be eligible since it already has a sales tax.

The revenue could go to the jurisdiction where the purchase was made. There would be some problems in setting up the administration for this (not everyone knows where the city boundaries are and boundaries changes with annexations.) The state could collect the tax and redistribute based on where the purchase was made. The actual collection system is already in place.

The tax on purchases in the unincorporated area would go to the county government, to be spent on roads.

The state could allow any government to adopt this without a referendum, perhaps up to a specific tax rate. To exceed that rate a referendum could be required. If the state wanted to require a referendum, they would almost certainly require a countywide vote. Trying to keep track of elections in each municipality and unincorporated area (almost 700 referenda) would mean would be a challenge.

The State could keep it countywide and still not have a referendum. The state could require that municipalities representing 50% or more of the population (or eligible voters) would have to approve it. The county government would represent the unincorporated area population.

The tax could be made permanent or require periodic renewal.

Since Georgia's fuel tax is so low relative to other states, and since a typical purchase is relatively small, there should be little concern about gas dealers leaving the state or folks in Columbus driving to Phoenix City for gas even if the local fuel tax rate was 5 cents.

The revenue should be relatively stable over the business cycle.

## **II. Municipal Option Sales Tax**

A 1% sales tax would generate about \$1.6 billion in revenue statewide, if food is included in the tax base and about \$1.3 billion if food is excluded.

The simplest approach is a countywide tax distributed to municipalities and the unincorporated area based on share of population.

It would be much more complicated for retailers to allow each municipality to decide whether to adopt the MOST or not. (Note that there are about 535 municipalities in Georgia.)

If allocation is based on where the revenue is generated, it creates incentives for jurisdictions to compete for the location of shopping centers and to annex area that contains shopping facilities.

Note that for this and the other options it would not be necessary to use a 1 percent tax rate. The rate could be 0.25 percent or 0.5 percent, or even 0.148 percent (although this would not be a good idea politically).

## **III. Local Option Income Tax**

A 1% add-on to the state income tax, i.e., in addition to the state income tax, individuals and businesses would pay an additional 1 percent to local governments. Such a tax would generate about \$1.25 billion in revenue statewide.

State law allows such an option, but the legislation is so restrictive that using the income tax add-on is impossible. Thus, the law would have to be altered.

The legislative provisions for adopting the local option income tax are the similar as those for LOST, e.g., it requires a referendum. However, the revenue goes to the municipalities and the unincorporated area based upon its share of the county population. Thus, the local income tax does not have the same problems in developing an allocation formula as the LOST.

The legislation could require that income tax revenue be allocated to the place of residence, with revenue collected in the unincorporated area going to the county government. This would “solve” the problem of reaching agreement between the county and the municipalities.

There would be some problems in making sure that the place of residence is correctly mapped into the municipality.

In order for the State to allocate income tax revenue to the jurisdictions during the year, firms would have to determine the county (or municipality if that is the basis of the

mandated allocation) of residence for all of its employees. Since the final tax liability is not known until April 15, there would have to be some end of the year adjustment in the payment to each municipality.

Other than the reporting by residence, the administration would be relatively simple. The state would do the collection. The state income tax rate is at the lower middle range of state income tax rates in the Southeast, so the increased tax would not represent a large incentive for moving employment out of state. The allocation by residence reduces the incentives to move employment within the state.

#### **IV. The Right to Work Tax (aka Payroll Tax)**

A 1 percent tax on earnings and salary would generate about \$1.45 billion in revenue statewide.

The revenue could be allocated to jurisdiction of residence or jurisdiction of work, or split. It does not have to be a “commuter tax.”

Politically, this would have to be imposed on the employee, not the employer (although economists argue that it makes no difference from an economics point of view.)

A public relations firm would have to come up with a better name.

In some states this tax is administered by each municipality or by a group of municipalities. It could also be administered by the state through the income tax system, including income tax withholding.

#### **V. State Revenue Sharing Program**

A final option would be for the state to add 1 percent on to its sales tax or its income tax with the revenue dedicated to a grant in aid program for local governments. The revenue would be allocated to local governments based on a formula and to be used for a set of defined activities.

The formula should probably include factor that measure need and available resources. Need would be related to population, employment, and poverty. High property and sales taxes would also measure need. On the other hand, the larger property tax base would suggest greater available resources. Thus, a formula that used resources divided by need would be appropriate. The formula could also include a component to reward tax effort, or changes in tax effort. It would take some doing to come up with an appropriate formula, but it would not be difficult.

The legislation could define the activities that the grant could be used for. Possible activities might include: provision of general services, purchase of green space, certain infrastructure improvement, and property tax reduction.

The program could be for infrastructure improvements with a sunset provision. A sunset provision would be harder to justify and implement if the funds are used for general government services.

The biggest concern is that the state might decide to use the revenue for other purposes. To make it truly permanent would require passing a constitutional amendment that established the program and set the tax rate.

## **VI. Payment In Lieu of Property Taxes (PILOTs)**

Currently the state government and non-profits are exempt from property taxes. The state could adopt a program that required it and certain non-profits to make payments in lieu of property taxes.

Connecticut has such program. Under the Connecticut program payment is made for property owned and used by the state government. The payment is a percentage of the property taxes that would be due if not exempt: 100% for correction facilities; 100% in any town in which more than 50% of the property is state-owned; 45% for other property.

In FY 2002 the state paid out \$67.9 million. Connecticut's population is about 40% of Georgia's population.

Rhode Island has a program that applies to any private nonprofit institution of higher education, or any nonprofit hospital facility, or any state owned and operated hospital, veterans' residential facility, or correctional facility occupied by more than 100 residents. The payment from the state equal 27% of the tax that would have been collected had the property been taxable.