Progressive Policies for Raising Municipal Revenue

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A Strategy Report From







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Local Progress is the policy network for elected officials from cities and counties around the country united by their commitment to shared prosperity, equal justice under law, sustainable and livable cities, and good government that serves the public interest. Hand-in-hand with community-based organizations and progressive unions committed to advancing a social justice agenda, the elected officials and staff of Local Progress are building the network to facilitate a genuine "inside/outside" strategy to reforming municipal policy and politics.

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I. EXECUTIVE SUMMARY

This report lays out a set of policy and political interventions that cities, regions, and states can make to increase municipal revenue and to make their collections more progressive. Cities have historically suffered enormous budget shortfalls and after the Great Recession, available funds depleted even more drastically. There is a desperate need for more municipal tax revenue and for a more just system for collecting it, instead of the current practice of cities collecting their revenue in regressive ways. Across the United States, there are major political obstacles to raising any kind of revenue. And yet, although different, the obstacles at the municipal level are in some ways even greater than they are at the state and federal levels.

Nevertheless, there are meaningful strategies that cities and counties can adopt. And there are political strategies that may be effective at generating state-level reform. This report lays these out in detail, discussing the political and policy strengths and weaknesses of each. Viable policy options include (and are not limited to):

Municipal Income Taxes

- Expand Earned Income Tax Credits to ease the burden of regressive revenues, such as fees and sales taxes, on the poorest citizens
- Eliminate corporate tax breaks at the city level, particularly Tax Increment Financing and Business Improvement Districts
- If municipal income taxes exist, expand progressivity by creating more tax brackets and a wider spread in rates between the lowest and highest brackets
- To the extent possible, shift municipal budgets away from sales taxes

Progressive Fees & Fines

- Convert city services into municipality-owned utilities when possible, and charge utility fees to all users
- Apply conservation pricing so lower-income households pay a lower rate and bulk users such as commercial and industry pay higher rates
- Institute exemptions or rebates for low-income residents
- Apply utility fees so even tax-exempt institutions have to pay
- Enact general transfer agreements so funds can contribute to the general budget
- Enact "commuter" or occupational-privilege taxes
- Use development fees to cover the costs of growth
- Ensure that fees and even fines are structured progressively, which can increase revenue, increase conservation, and improve deterrence

Sales Taxes:

- When sales taxes must be used, apply them as broadly as possible, do not favor particular industries
- Earmark sales taxes for programs that disproportionately help the poor
- Exempt necessities such as food and medicine

Property Tax Reform

- If possible, charge different rates of property tax for residential and commercial and industrial properties with higher rates for higher value land, such as a "mansion tax"
- Provide fixed-dollar exemptions rather than percentage-based exemptions and implement "circuit breakers" so there is a limit on the percentage of income any resident pays in property taxes
- Ally with community organizations to exert political pressure on large tax-exempt institutions to forge Payment in Lieu of Taxes (PILOT) agreements

In addition to these policy reforms that are in many cases legally feasible at the local level, there is also a need to mobilize regionally and trans-locally in order to reform state law. Particularly in the revenue policy and legal space, state law is too powerful to ignore. The institutional and political challenges of organizing for state reform are of course significant, but options include:

- **Income Taxes**: Expanding state income taxes and returning the revenue to the municipal government from where the taxes are collected.
- **Property Taxes**: Lifting tax caps and eliminating corporate subsidies and giveaways.
- **Sales Taxes**: Permitting municipalities to tax services and internet sales.
- **<u>Regionalism</u>**: Tax-base sharing across municipalities can facilitate growth and reduce inequality.

Accomplishing any of these reforms would require well-designed and well-executed political strategies, and would be highly contingent on the state's political environment. It would also, of course, be highly dependent on the legal and policy terrain: the state's constitution, the locality's budgetary and service needs, and the policy opportunities and obstacles.

But, as a general matter those obstacles can be overcome. Concerted legislative campaigns for municipal revenue can win if they center on a politically popular demand (i.e., they lead with the services, not the tax), mobilize a genuine community and labor base, embrace policy advocates and grasstops organizations, and include state and local elected leaders.

II. INTRODUCTION

A. The Current Crisis

Up until January 2014, Ithaca, NY residents had to pay for installations and repairs of public sidewalks adjoining their properties - with one notable case in which over 28 city residents were forced to pay a combined \$100,000 out of their own pockets to the city for repairs.¹ In Detroit, MI, where the largest municipal bankruptcy was just filed, the city's water department responded to pressures to lower its \$90 million portion of the overall \$20 billion debt by shutting off crucial water services to low-income residents who owed just \$150 on their water bills.² In Ferguson, MO, Black residents for years have been illegally stopped, fined, ticketed, jailed, beaten, humiliated, and sometimes even killed by an overzealous city police force that relies on discriminatory enforcement actions in order to sustain the second largest revenue source for the city. At first these stories seem like isolated and extreme cases of mismanaged cities, but they are in fact troublingly commonplace and connected by a common underlying problem: across America, cities and towns are struggling to maintain enough revenue to provide crucial services to residents, and the collateral damage of this revenue crisis is stark.

B. The Long History of the Municipal Revenue Crisis

The municipal revenue crisis is not a new or recent phenomenon. Although it ballooned to extreme levels during the Great Recession of 2008, the roots of the problem were decades in the making. Following the post-war desegregation of housing and education and other civil rights victories of the 50's and 60's, racial animosity and the conservative backlash against taxation caused a rapid exodus of higher-income white people from urban centers to suburban enclaves. These suburbs slowly developed separate school districts and incorporated as separate towns, taking a significant tax base away from urban centers and contributing heavily to disinvestment from places like Detroit, Cleveland, and Oakland while remaining so small that they could not remain completely self-sufficient themselves. At the time, the repercussions of this flight were hidden by robust and sustained economic growth, so these small municipalities could rely on state aid to offset their own revenue insufficiencies. But, as the Great Recession laid bare, the disappearance of state aid in bad economic times exposed the frailty of these tiny suburban municipalities.

The perennial symbol of the conservative backlash was the 1976 passage of Proposition 13 in California. At the height of a period historians refer to as the tax revolt, California voters voted to cap annual property tax increases throughout the state at the inflation factor, not to exceed 2%. Prop 13 has dramatically reduced the ability of municipalities, counties, and the state to receive revenue through property taxes and contributed to the rapid decline in quality of education in California. Before 1985, California was at the national average in terms of per-pupil funding and,

¹ Ire in Ithaca over Sidewalk Bills. Joe Roetz. CNYCentral.com. (March 4, 2009).

² In Detroit, Water Crisis Symbolizes Decline, and Hope. Bill Mitchell. National Geographic. (August 22, 2014)

by many measures, boasted one of the best public education systems in the country. Today, thanks in large part to Prop 13's revenue restrictions, the state ranks 49th in per-pupil spending and public education suffers in a multitude of ways including class sizes, test scores, and graduation rates. Immediately after the passage of Proposition 13, 30 anti-tax ballot measures rose up throughout the country, typifying the national sentiment that for decades would cripple the ability of lawmakers to create legislation to properly fund municipalities.³ The tax revolt also witnessed the normalization of companies using tax loopholes to avoid paying their share of taxes.⁴

In 2008, as the bubble in the housing market burst, causing the financial market to plummet, unemployment to skyrocket, and spending to grind to a halt, the municipal revenue crisis that had been brewing for decades blew up. In 2011, Mayor Bloomberg of New York City said that in response to a proposed cut of more than \$2 billion in state education aid, he would have to lay off as many as 4,700 school teachers.⁵ Newark, NJ, which had been hit particularly hard by a decline in state aid and a reduction in property tax base, was facing the prospect of laying off between 800 and 1,500 municipal employees.⁶ In 2009 and 2010, cities experienced average declines in general fund revenues of 2.5% and 3.2%, respectively.⁷ In order to deal with the impacts of this dramatic shortfall, cities were forced to cut personnel, cancel capital projects that would have created much-needed jobs, reduce funding for education and public parks, and make other cuts across the board to city services.⁸

There were a number of reasons why the Great Recession had the dramatic impact it did. First, the sudden drop in property values significantly reduced property taxes, which accounted for about 29% of local government revenue.⁹ In 2010 and 2011, property tax revenue fell by 2.5% and 3.1%, marking the first decline since the mid-1990's and the largest in decades.¹⁰ Second, as unemployment soared and spending ground to a halt, cities that depended on sales taxes and commuter taxes also saw revenue decline. Finally, the same factors that reduced local

³ Who's Afraid of the Big Bad Initiative? Hoover Institute. (July 30, 2000)

⁴ Report Shows Real Factors Behind Detroit Crisis: Revenue Decline, Wall Street Deals Play Largest Role. Demos. (November 20, 2013)

⁵ Bloomberg's Budget to Include Teacher Layoffs. Javier C. Hernandez. The New York Times. (February 16, 2011); The Impact of the Great Recession and the Housing Crisis on the Financing of America's Largest Cities. Howard Chernick, Adam Langley & Andrew Reschovsky. La Follette School of Public Affairs at the University of Wisconsin-Madison. (2011)

⁶ The Impact of the Great Recession and the Housing Crisis on the Financing of America's Largest Cities. Howard Chernick, Adam Langley & Andrew Reschovsky. La Follette School of Public Affairs at the University of Wisconsin-Madison. (2011)

⁷ *City budget shortfalls and responses: projections for 2010-2012.* Christopher W. Hoene. National League of Cities. (2009); *Research brief: City fiscal conditions in 2010.* Christopher W. Hoene & Michael A. Pagano. National League of Cities. (2010).

⁸ State of America's cities survey on jobs and the economy. Christiana McFarland. National League of Cities. (2010); The Municipal Fiscal Crisis and Payments in Lieu of Taxes by Nonprofits. Daphne A. Kenyon & Adam H. Langley. Lincoln Institute of Land Policy. (2011)

⁹ The Local Squeeze: Falling Revenues and Growing Demand for Services Challenge Cities, Counties, and School Districts. Pew Charitable Trusts. (2012)

¹⁰ The Local Squeeze: Falling Revenues and Growing Demand for Services Challenge Cities, Counties, and School Districts. Pew Charitable Trusts. (2012)

government revenue also reduced state revenue, in turn further harming municipalities since state aid, which comprised nearly a third of local government budgets, fell by 2.6% in 2010.¹¹

C. Who Pays The Most

The municipal revenue crisis has hit everyone hard, but as with most faults in our economic and political systems, it has hit low income people and people of color the hardest. Some municipalities have resorted to privatization and new taxes and fees in order to save money and generate more revenue. As a result, residents are being forced to pay more for services like trash collection, sewage, public property maintenance, parking meters, and to pay new taxes on a variety of everyday goods. These policies are regressive because they hit low income people the hardest. In fact, a recent study conducted by the Institute on Taxation and Economic Policy found that when one combines all the state and local income, property, sales and excise taxes that Americans pay, the nationwide average effective state and local tax rates are 10.9% for the poorest fifth of taxpayers and 5.4% for the wealthiest 1%.¹² In the ten states with the most regressive tax structures, the poorest fifth pay up to seven times as much in taxes and fees as the wealthiest residents, as a percentage of their income.¹³ While local governments sometimes shift the cost of some services onto poorer residents, at other times they just cut services all together. Many municipalities have had to increase public school class sizes, shorten school days, close vital city offices, and eliminate a huge number of public sector jobs. Since Black workers are 30% more likely to be employed by the public sector than other workers, the reduction in public sector employment has had a disproportionate impact on Black workers and families.14

One of the most harmful ways that local governments deal with revenue issues is through overpolicing and over-criminalization of some of the most vulnerable communities. In several small municipalities throughout St. Louis County, including Ferguson, and even in big cities like New York City, local leaders increase fees and fines and develop formal or informal quota systems that criminalize activities like spitting on sidewalks¹⁵ or even sleeping over at someone else's house.¹⁶ The rationale behind over-policing varies slightly from place to place, but it almost always uses the rhetoric of public safety to cloak a system that criminalizes and financially

¹¹ The Local Squeeze: Falling Revenues and Growing Demand for Services Challenge Cities, Counties, and School Districts. Pew Charitable Trusts. (2012)

¹² Who Pays? A Distributional Analysis of the Tax Systems in All 50 States. The Institute on Taxation and Economic Policy. (2015)

¹³ Who Pays? A Distributional Analysis of the Tax Systems in All 50 States. The Institute on Taxation and Economic Policy. (2015)

¹⁴*Research Brief: Black Works and the Public Sector.* Steven Pitts. University of California-Berkeley Center for Labor Research and Education. (2011)

¹⁵ Daily News analysis finds facial disparities in summonses for violation in 'broken windows' policing. Sarah Ryley, Laura Bult & Dareh Gregorian. New York Daily News. (August 4, 2014)

¹⁶ "This Is What Jim Crow Looks Like": A Day in North St. Louis County Courts. Lindsay Toler. Riverfront Times. (October 17, 2014)

pillages Black, brown, and poor communities partially for the purpose of maintaining municipal revenue streams.

In many places like Washington, D.C., Oakland, and Chicago, local governments seek to increase revenue by attracting businesses and higher-income residents. When governments do this, they employ a wide variety of methods to cause gentrification, a phenomenon that harms and pushes out low income residents who are usually of color. Overwhelmingly, when local governments try and use the current limited toolkits they have to deal with revenue shortages in regressive ways, they end up hurting the most vulnerable populations in their cities the most.

D. The Promise of Cities

Solving the municipal revenue crisis in a progressive way is a fundamental stepping stone to rebuilding a more democratic, just, and livable America with genuine shared prosperity. Cities are the bedrock of the our country's future and the future of the progressive movement. The top 100 metropolitan areas in the country account for 67% of the population and 75% of our GDP.¹⁷ Our best schools, hospitals, industries, and most sustainable infrastructure are all located in cities and metropolitan areas, and so are our most socially and economically diverse communities. The political, economic, and social experiments that drive our country forward - from participatory budgeting to collective bargaining to racial integration - are tested out in cities. They are the true laboratories of democracy.

The municipal revenue crisis threatens this foundation by hindering the ability of cities to continue to provide services and opportunities to residents and by forcing cities to resort to regressive, discriminatory, and unjust policy measures in order to stay afloat. Addressing municipal revenue means that we can remove incentives for cities to over-police communities of color and gentrify, and we can develop progressive revenue solutions for our local and state efforts to provide for more equitable public education, better housing, more sustainable infrastructure, and a host of other progressive goals. By developing institutional reforms and practices to solve the crippling municipal revenue crisis, we can ensure that cities will continue to be the bedrock of our vision for a more progressive and prosperous America for decades to come.

E. Progressive Strategies to Raise Municipal Revenue

This report provides an overview of the challenges and available strategies to realize the vision of sustainable, progressive cities. First, the report briefly explains the relationship between states and cities and the legal and political restrictions and opportunities available to local governments. Next, it explores possibilities for cities to raise revenues through income tax, fees, sales taxes, property tax, and other creative measures. The discussion of each of these funding streams includes both secondary research and interviews with 20 local elected officials.

¹⁷ Cities at Work: Progressive Local Policies to Rebuild the Middle Class. Joel Rogers & Satya Rhodes-Conway. Center for American Progress. (2014)

III. THE ROLE OF MUNICIPALITIES IN BUILDING A PROGRESSIVE TAXATION SYSTEM: LIMITED TOOLS, BUT ROOM TO GROW

Our most basic and important contacts with our government typically happen at the municipal level. We are able to get a glass of water from the tap, turn on the lights, use public roads to get to work, and drop off our children off at a public school because of our municipal governments. As the wealthy have increasingly shirked their tax contributions at the federal, state and local level, the burdens of maintaining the systems and services we depend on shift and slip down from DC, slip past the state houses, and ultimately come crushing down on city hall. John Avalos of the San Francisco Board of Supervisors said, "Our infrastructure is falling apart and municipalities have to pick up the slack. A big part of the crisis is that we're not getting the support that is needed for our infrastructure. The crisis of municipal finance has a lot to do with federal finance."¹⁸

Cities are on the defensive and struggling to maintain their most basic functions, so for most municipalities proactively addressing poverty or inequality is off the table. Minneapolis City Council Member Elizabeth Glidden says, "When you do something outside of the bare essentials, how you continue funding it is a challenge. We just appointed some point people to work on racial equity to improve racial diversity in city hiring and established a sustainability office through foundation funding. We think these positions are essential, when you try to do something new, how can you keep paying for it?"¹⁹

According to the Economic Policy Institute, 30% of the rise in income inequality between 1979 and 2007 was due to erosions in the redistributive nature of tax and budget policy.²⁰ A core battleground in the fight against inequality is on the often ignored, unglamorous ledgers of municipal budgets.

A. Legal Limitations Imposed by the State

The limitations on municipal powers to raise revenue are the result of legal, political, and practical restrictions. Legally, municipalities are creatures of the state. They are granted their powers of taxation from the state and each state grants its municipalities different levels of taxation power. For example, only 17 states allow cities to levy income taxes, many states prohibit changes to municipal property tax rates beyond minor adjustments, and frequently any changes to sales taxes must be instituted with permission from the state legislature and require city level referendums with supermajority support.

¹⁸ John Avalos, San Francisco Board of Supervisors Member, January 26, 2015.

¹⁹ Elizabeth Gliden, Minneapolis City Council Member, February 10, 2015.

²⁰ Rising Income Inequality and the Role of Shifting Market-Income Distribution, Tax Burdens, and Tax Rates. Andrew Fieldhouse. Economic Policy Institute. (2013)

For example, in Massachusetts a constitutional amendment prevents cities from implementing progressive taxation structures. Similarly, in Washington a conservative activist wrote a series of ballot measures limiting revenues for state and local government, including a cap on property tax limiting rates to \$5.90 per \$1000 of value. Ryan Mello, a City Council Member in Tacoma, WA, described the ultimate impact of these restrictions, stating "Our police are so underfunded that they can basically only respond to shootings and stabbings. For a property crime you have to call a number to get an automatically generated report. Our firefighters are great but we're so understaffed they can't meet state accreditation standards for response time. Our fire stations are even too small to fit modern fire engines."²¹ Although the specifics of these restrictions are unique to each state jurisdiction, across the country it remains true that changing taxation at the municipal level is extremely difficult and in certain instances legally impossible. As Travis Knowles, Chief of Staff to San Diego Council Member David Alvarez said, "These restrictions put us in a prison."²²

B. Budget Pressures Imposed by the State

These limitations on the power of municipalities can create deep dysfunction, particularly as more states push austerity measures in the wake of the economic crash – because, ultimately, it is the municipality that must fill the gaps. As Michael Mazerov, senior fellow at the State Fiscal Project of the Center on Budget and Policy Priorities said, "When states slash budgets, the homeless don't show up on the steps of the state capitol – they're at city hall."²³

The effects of state cuts are felt throughout city budgets. Education is commonly the largest expenditure of municipalities, and 46% of total education spending in the United States comes from state funds.²⁴ Cuts at the state level mean that municipalities have to lay off teachers, reduce school services, or find a way to raise more local tax revenue to cover the gap, or both. According to the Center for Budget and Policy Priorities, 60% of states are still providing less per pupil funding for K-12 schools today than they did in 2007-2008 – and in half of those states the cuts were over 10%.²⁵ Cities also depend on the state for essential infrastructure that is often too expensive for localities to finance on their own. Jason West, the Mayor of New Paltz, NY said, "Our biggest hole is infrastructure. We depend on funds from the state to maintain our sewer and water line – the basic ground floor of what a city should do for its citizens. This year we didn't get funding so we can either ignore our infrastructure needs for another year or figure out another way to get \$600,000.²⁶ Kevin Sutherland, Chief of Staff to the Mayor of Ithaca added, "When the state government gave cities mandates, they used to also provide funding so

²¹ Ryan Mello, Tacoma City Council Member, January 14, 2015.

²²Travis Knowles, Chief of Staff to San Diego Council Member David Alvarez, January 13, 2015

²³ Michael Mazerov, Center on Budget and Policy Priorities Senior Fellow, March 17, 2015.

²⁴ Most States Still Funding Schools Less Than Before the Recession. Michael Leachman & Chris Mai. Center on Budget and Policy Priorities. (2014)

²⁵ Most States Still Funding Schools Less Than Before the Recession. Michael Leachman & Chris Mai. Center on Budget and Policy Priorities. (2014)

²⁶ Jason West, Village of New Paltz Mayor, January 20, 2015.

we could fill those mandates, but now they don't do that. We barely get any support from the state, it's stayed flat at about 1% of our revenue. In fact, as time went on, they actually cut funding and demanded that the services continue. "²⁷

The fiscal health of cities is intimately tied to states, even as states tie cities' hands. Therefore, any comprehensive strategy for raising municipal revenue must include attention to state-level advocacy, both to allow for more municipal flexibility and to ease the burden on municipalities.

C. Trends in Progressivity and Geography

Our definitions of community and shared responsibility have a profound impact on the equity of our tax systems. More progressive taxation options are available when the taxing authority covers a larger geographic area because larger geographic tax bases can capture high-value sectors of the tax base and provide crucial services to those in the greatest need. Business Improvement Districts (BIDs) and Tax Increment Financing (TIF) schemes draw artificial lines within a municipality – typically in high-value commercial areas or new luxury developments – and aim to build up walls around themselves so the benefits of that revenue are not shared across the municipality. White flight has similarly been fueled by wealthier individuals who want to send their children to richer schools, and to support only those schools that directly benefit their own families with their tax dollars. The explosive sprawl of the last half of the 20th century is largely a story of white families leaving the boundaries of the city core to create municipalities whose effect is to build up walls so revenue from the high tax base does not escape to benefit poorer, typically minority communities. These artificial boundaries create low tax-base areas and high tax-base areas that result in inequitable collection and distribution of resources despite the interconnectedness of those who live and work in and around the city core.

²⁷ Kevin Sutherland, City of Ithaca Chief of Staff to the Mayor, January 29, 2015.



High wealth individuals and institutions inevitably threaten to leave jurisdictions with progressive taxes for lower tax jurisdictions. These threats happen at the national and state levels, but elected officials are especially wary of these threats at the municipal level where residents can much more easily reduce their tax bills by relocating just a few miles away. Despite the rhetoric, research shows that tax systems at the state level do not have an effect on out-migration, and therefore genuinely progressive tax systems are possible at the state level, which many believe would not be practicable at the municipal level.²⁸ A Metropolitan Statistical Area (MSA)²⁹, defined by the census as a geographical area with high social and economic integration, is another potential sub-state boundary that can be used to create a tax base where progressive income structures are more practicable. However, creating MSA tax-base sharing systems also require state approval.³⁰

²⁸ State Taxes Have a Negligible Impact on Americans' Interstate Moves. Michael Mazerov. Center on Budget and Policy Priorities. (2014)

²⁹An MSA is a geographical region with a relatively high population density at its core and close economic ties throughout the area. Such regions are typically made up of a large city with substantial influence over the region, surrounded by smaller municipalities and unincorporated areas.

³⁰ Explained in further detail later in this report in, "Regionalism: A Way Forward for St. Louis & Beyond."

Generally, municipalities have the most flexibility for raising revenue independent of state action in the levying of fees and sales taxes, which are the most regressive forms of taxation. Municipalities face the most obstacles – legally and practically – levying income taxes, which is the most progressive form of taxation. These general trends hold true throughout the discussion to follow: the most feasible actions cities can take – politically, practically and legally – are generally smaller reforms that blunt the harshest outcomes of regressivity but do not establish genuinely progressive revenue streams. The most progressive ways to raise the most revenue generally require action at the state level and are much more difficult to achieve.



Throughout the following discussion of fees, income taxes, sales taxes, and property taxes, strategies that require state level action will emerge. Certain strategies are only possible at the state level for practical or legal reasons. Some measures can be implemented at the municipal level in certain states while in other states the same measure would need to be enacted in state law or would require state approval.

If cities are to survive the current crisis, reforms at both the local and state level are necessary, and the menu of available options – practically, politically, and legally – will depend on the jurisdiction.

D. Local Electeds and Communities Must Build Effective Political Movements to Save Our Cities

While the policy options to raise revenue in a progressive way in each municipality will vary, the underlying injustice of the system is constant: who pays and for what? The poorest 20% pay almost double the rate of the richest 1% in state and local taxes.³¹ And despite paying a greater share of their income, the poorest receive fewer public services: growing class sizes and failing schools, potholes and crumbling sewer systems, and non-existent health and human services. The political movements across the country to combat this reality should share a common theme and analysis: too often, local policies are exacerbating inequality. A shared understanding of the status quo and access to the best policy options available at the city or state level are crucial for progressives seeking reform. And mobilized, educated, and energized municipal elected officials are also crucial to this effort.

When revenue is reduced at the state level, the gaps must be filled at the municipal level where revenue-raising tools are more regressive. However, cities have not effectively found common cause with one another to advocate for change that would help all of them at the state level. Our movement has not yet tapped the potentially transformative power of bringing together elected leaders from across the state to demand progressive change in state budgets and state laws governing municipal taxation.

In many cases, the problems cities face are too large for municipalities to bear themselves. Tacoma City Council Member Ryan Mello said, "Our schools are outdated, our class sizes are too big, teachers have not had a raise in years. Things have gotten so bad that even the Supreme Court has said that we're violating our state constitutional duty to provide education. The state is under-funding schools by about \$4 billion. It's insane to think that each of the 260 districts in Washington are each going to independently be able to fill their share of that \$4 billion hole. There needs to be a statewide solution."³² Seattle City Council Member Nick Licata described the common situation of municipalities deferring large infrastructure projects: "We're a classic example of a time bomb. Our sewer system is 90 years old, we have bridges that are close to failing, but if we want to maintain services, we have to cut back on infrastructure. But even if you don't notice it on a day to day basis, the city is slowly crumbling."³³ However, to date, the political leadership of the cities of Washington State has not joined forces with education advocates and other community allies to push for systemic change. Licata believes that this

³¹ Who Pays? A Distributional Analysis of the Tax Systems in All 50 States. The Institute on Taxation and Economic Policy. (2015)

³² Ryan Mello, Tacoma City Council Member, January 14, 2015.

³³ Nick Licata, Seattle City Council Member, January 27, 2014.

should change. "There are all these right wing networks that operate from the premise that government is a hindrance to development. But public sector employees – across municipalities – have a common interest in protecting the public interest. We need our own networks of local electeds to change compositions of state legislatures and make change."³⁴

When cities have to fill the budget hole left by a lack of state education funds, it often means shifting funds from other parts of the budget so that firefighters cannot be hired, roads cannot be repaired, and many other aspects of city governance suffer. In extreme cases, the gaps caused by a lack of state action result in financial incentives to criminalize and over-police Black communities, as in the small cities of St. Louis County, like Ferguson. There is an enormous opportunity for community-based organizations, labor unions, social service advocates, and elected officials to organize across jurisdictions in an effort to both balance local budgets and to address the drivers of economic and racial disparities.

E. Leading with Needs, then Coupling with Means

In interviews with over 20 elected officials from across the country the common thread through the vast majority of successful efforts to raise municipal revenue was that the proposed increase in taxes was earmarked specifically for a needed service. Meghan Sahli-Wells, the mayor of Culver City said, "We're a full-service city, we have our own police, schools, and other services, even though we're surrounded by Los Angeles. People want to keep the services we have, and we campaigned hard and tied the services people count on to the new tax."³⁵

In some cases, municipalities are legally required to earmark new taxes for specific purposes; however, even in cases where there are no legal requirements, connecting revenue to services just makes political sense. Denver City Council Member Robin Kniech said, "In November of 2012 we raised property taxes and we won with 74% of the vote. The property tax goes to the general fund, so there's no legal earmarking, but the funds are basically politically earmarked. We got that support because people were feeling the pain of reduced services. We hadn't hired a police officer in five years, libraries were only open three days a week, and we wanted to add services – like more after school programs and free summer pool hours."³⁶ In the case of Denver, people voted overwhelmingly for the new tax, even though it would go into the general fund, because they valued what they would get in return.

New York City's fight for universal Pre-K was a notable instance of attempting to put in place both a needed service and a progressive tax source to pay for it. New York City had universal Pre-K services on the books since 1997, but it had never been implemented because of the latest fiscal or economic crisis of the day. Bill de Blasio, newly elected as mayor, argued for a devoted funding stream by taxing the richest New Yorkers to finally fully fund universal Pre-K.

³⁴ Nick Licata, Seattle City Council Member, January 27, 2014.

³⁵ Meghan Sahli-Wells, Mayor of Culver City, January 16, 2015.

³⁶ Robin Kniech, Denver City Council Member, January 21, 2015.

de Blasio demanded that Governor Cuomo allow New York City to raise revenue from the wealthiest New Yorkers, saying, "A tax on the wealthy was the No. 1 proposal I put forward in an election that I won with 73 percent of the vote."³⁷ Despite the wave of populist energy propelling him through his election, it is unlikely that de Blasio would have gained support for a tax on the wealthy without tying it explicitly to universal Pre-K. At this point, Governor Cuomo prevented the passage of a tax on the wealthy by temporarily finding other sources of funding through budget cuts to pay for the initiative. However, as more parents depend on the new provision of universal Pre-K, the political will to find devoted sources of funding through new revenue streams may grow.

F. Creating a Narrative Flexible Enough to Work Across Jurisdictions

Community-based organizations are already setting their sights on advancing narrative frames and bottom-up pressure to clear room for policy changes at whatever level of government is necessary to reduce inequality and create a more just society. For example, in their Fix LA campaign, Bargaining for the Common Good, the Alliance of Californians for Community Empowerment, and other partners in Los Angeles have resisted the push for austerity and the dismantling of public sector unions by laying the responsibility for lack of municipal funding at the feet of the Wall Street bankers who crashed the economy.³⁸ The Fix LA coalition is forcing decision makers to take a stand and side with either the public or the 1%. This big picture framing has allowed the Fix LA coalition to fight battles on state, county, and city policy as well as bring private actors to the negotiating table (even in the absence of legal leverage) and force them to contribute to the general budget.

Fix LA achieved a concrete win in November of 2014 by challenging the city council on its lack of enforcement of a law requiring banks to maintain foreclosed properties. The law imposed \$1000 in fines for every day the banks were not in compliance, but after four years on the books, not a single fine had been levied.³⁹ Fix LA publicized the scandal and got the city to pass a new fee – a proactive \$350 inspection charge applied as soon as a property goes into foreclosure.⁴⁰ The funds from these fees will now pay the salaries of inspectors who will apply more rigorous enforcement. Since the Fix LA movement has a broad narrative on Wall Street accountability and continues to be active on a range of issues, activists will continue to monitor the effectiveness of the new law and the consistent, maintained outside pressure will ensure the law on the books results in real change in communities.

³⁷ Pre-K Plan Puts Cuomo at Odds With de Blasio on Funding. Michael M. Grynbaum & Thomas Kaplan. The New York Times. (January 21, 2014).

³⁸ For more information on Fix LA, go to fixla.org.

 ³⁹ L.A. registry criticized over run-down foreclosures. Tim Logan. Los Angeles Times. (May 9, 2014)
⁴⁰ For the full legislative history of the new fee, visit

http://cityclerk.lacity.org/lacityclerkconnect/index.cfm?fa=ccfi.viewrecord&cfnumber=12-0647-S6.

The complexity and multiple levels of the tax system requires a strong central narrative flexible enough to build diverse coalitions and achieve change locally and at the state level in the short and long term. LA County taxes commercial real estate, so Fix LA also addressed county policy when Brookfield properties, upon buying 4 skyscrapers downtown, bragged to shareholders that it had structured the deal in order to avoid paying \$10 million dollars in property taxes. After the coalition staged a sit-in in the CEO's office, with signs stating that \$10 million could pay for 1000 teachers, Brookfield agreed to voluntary pay the \$10 million in taxes.

Many of Fix LA's strategies have been replicated by partners in the Oakland area, and the campaign's narrative could be applied to the regressive California Prop 13 cap on property tax collection. Although Prop 13 reform is the third rail in California politics and repealing it may be a long-term campaign, the ongoing efforts to lift the cap would be immensely strengthened by the involvement of local elected officials lending their voice to the effort.

G. Policy Fixes Require a Movement

The applicability of the following measures to raise municipal measures will vary by jurisdiction, but a strong movement that includes local elected officials will make true progressivity more possible at any level a potential opportunity arises.

IV. MUNICIPAL INCOME TAXES

Recommendations:

- Wherever possible, institute progressive income taxes at the state level with a portion of the funds earmarked to return back to the locality from which they originated.
- Expand progressivity by creating more tax brackets and a wider spread in rates between the lowest and highest brackets.

Income taxes are generally the most progressive tool that governments have to raise revenue, at any level.⁴¹ While sales taxes and property taxes disproportionately fall on the poor, progressivity is simplest to achieve by taxing the highest earners at higher effective rates than the poorest. Progressive income taxes, wherever possible, should be instituted, raised, and more brackets should be created at the highest levels so the highest earners pay higher rates.

Income tax trends at the federal level have added pressure to municipalities and rendered the entire American tax system more regressive. In the 1950s and 1960s, during one of the largest and longest economic booms in American history, the top marginal federal income tax rate was 91%; after major cuts to the federal income tax in the 70s, 80s, and 2000s, today the top marginal federal income tax rate is 35%⁴² and the effective income tax rate for the richest 1% is 23.7%.⁴³ While the richest Americans have been granted an enormous windfall by this massive reduction in their tax burden, the burden hasn't disappeared: the rich have just placed the weight of maintaining basic public needs off their own shoulders and onto the backs of the poor. According to the Economic Policy Institute's calculations, 30% of the rise in inequality since 1979 is attributable to erosions in the redistributive nature of tax and budget policy, both in the form of shifting tax burdens and the inevitable cuts in services.⁴⁴ As federal tax collection has become more regressive and less robust, municipalities have been left to fill the gaps with their limited, largely regressive tools.

In addition to the decline in federal income taxes, decreased income tax collections at the local level are part of the overall trend towards an increasingly regressive tax system: Over the past few decades, the number of local income taxes has declined, and, with only a few exceptions,

⁴¹ For a discussion of the opportunities and challenges presented by wealth taxes, please see the following section on property taxes.

⁴²The Truth About Taxes: History Suggests High Tax Rates on Rich People Do Not Hurt the Economy. Henry Blodget. Business Insider. (May 5, 2012)

⁴³ Who Pays Taxes in America in 2014? Citizens for Tax Justice. (2014)

⁴⁴ Rising Income Inequality and the Role of Shifting Market-Income Distribution, Tax Burdens, and Tax Rates. Andrew Fieldhouse. Economic Policy Institute. (2013)

income tax rates have declined as well.⁴⁵ Progressive income taxes raise less revenue than property taxes and sales taxes, constituting an average of only 17.7% of all state and local collections.⁴⁶ Furthermore, only 17 states allow municipalities to collect income taxes at all: Alabama, California, Colorado, Delaware, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, and West Virginia. Although the scope for income taxation is limited, there are still opportunities to expand and improve income taxation at the local level: currently, 4,943 jurisdictions in these states, covering over 23 million residents, have implemented some form of income taxation.⁴⁷

A. State-Level Progressive Taxation with Earmarks for Municipalities

Even in states where municipalities can legally levy an income tax, they are politically weary of doing so. For instance, New York State allows municipalities to levy income taxes, but according to Kevin Sutherland, Chief of Staff to Ithaca Mayor Svante Myrick, "It's hard for cities and counties to impose income taxes because of the fear of pushing people just beyond your city boundaries. I'm a student of public finance, and I know there is no better progressive way to tax people than by income. But for most cities it's just not practical."⁴⁸ Although the limits of this conventional wisdom on municipal income taxation have not been tested, the political perception is entrenched.

Therefore, the best way for cities to increase the progressive revenue stream from income taxes is to reform income taxes at the state level: the goal should be to create more income brackets and higher rates for those at the top, and distribute the funds based on the locality where the tax was collected. Although this would not result in redistribution from a rich area of the state to a poor area of the state, it would at least allow for progressive collection and distribution at the municipal level. Sutherland suggested, "The solution is to dedicate some of the state income tax to municipalities, so my taxes don't change if I move outside of the area. If I live in Tompkins County and the income tax comes back to where I live, then you'd solve the problem."⁴⁹ Jason West, the Mayor of New Paltz proposed the same idea, "If I could, I would get rid of property taxes and increase income taxes and fund education through state taxes, so every district got x dollars per child."⁵⁰ In Massachusetts, a portion of the state income tax is devoted to schools and roads, and according to Cambridge Council Member Leland Cheung, "state income taxes are the only way we can get to any kind of progressivity."

⁴⁵ Local Income Taxes: City- and County-Level Income and Wage Taxes Continue to Wane. Joseph Henchman & Jason Sapia. Tax Foundation. (2011)

⁴⁶ Who Pays? A Distributional Analysis of the Tax Systems in All 50 States. The Institute on Taxation and Economic Policy. (2015)

⁴⁷ Local Income Taxes: City- and County-Level Income and Wage Taxes Continue to Wane. Joseph Henchman & Jason Sapia. Tax Foundation. (2011)

⁴⁸ Kevin Sutherland, City of Ithaca Chief of Staff, January 29, 2015.

⁴⁹ Kevin Sutherland, City of Ithaca Chief of Staff, January 29, 2015.

⁵⁰ Jason West, Village of New Paltz Mayor, January 20, 2015.

State level income taxes are more feasible than local income taxes because, while many argue that people will move away from a higher tax municipality, there is no evidence that people move across state lines in order to avoid higher taxes. According to the Center for Budget Policy Priorities, "Differences in tax levels among states have little to no effect on whether and where people move."⁵¹ More than 69% of Americans live in the state they were born in and less than 2% of Americans make interstate migrations in any given year. Among this tiny fraction, the vast majority cite moving for jobs or family obligations as their reason for moving across state lines and these moves are just as likely to occur from a low-tax state to a high-tax state.⁵² That means there is no merit to the idea – pushed by conservative forces and special interest groups – that imposition or raising of a state income tax would force people out of the state. Uprooting your family and moving to a new place happens because you get a new job or members of your extended family need you, or you're tired of the weather; the idea that people would leave the state because of a marginal tax rate is a myth unfounded in facts.

Progressive state level income taxes would have a huge impact. Good Jobs First estimates that if state income taxes were reformed so the top 1% were taxed at the same rate as the middle fifth of taxpayers, states could generate \$68 billion in additional revenue, while taxing the top fifth at the same rates as the middle fifth would generate \$128 billion.⁵³ If states went beyond equalizing rates and made them progressive, even greater revenues would be available.

A state-level income tax plan that reverts its collections back to the cities in which they were collected would not only make more funds available for needed services, it would also shift the distribution of revenue streams so cities would not be as dependent on regressive sales taxes and property taxes.

B. Reforming Income Taxes Where they Exist

Where municipal taxes do exist, there is still plenty of room for reform. New York City Council Member Brad Lander said, "In the name of simplification we have reduced the progressivity of our income tax. In the 1970s there were 14 different income brackets, but today there are only five. New York City income taxes are less progressive than federal income taxes and they are less progressive than they used to be."⁵⁴ In New York City, the difference in rates between the bottom income tax bracket and the top income tax bracket is less than 1%: 2.907% on the low end and 3.876% on the high end.⁵⁵ This is especially disturbing considering that between 1995

⁵¹ State Taxes Have a Negligible Impact on Americans' Interstate Moves. Michael Mazerov. Center on Budget and Policy Priorities. (2014)

⁵² State Taxes Have a Negligible Impact on Americans' Interstate Moves. Michael Mazerov. Center on Budget and Policy Priorities. (2014)

 ⁵³ *Tax Fairness: An Answer to State Budget Problems*. Greg LeRoy & Stephen Herzenberg. Good Jobs First. (2015)
⁵⁴ Brad Lander, New York City Council Member, January 28, 2015.

⁵⁵ New York City Taxes—Trends, Impact and Priorities for Reform. Fiscal Policy Institute. (2015)

and 2012 the share of total income captured by the 1% in New York City rose from 20% to 40% of total income.⁵⁶ While inequality has skyrocketed, taxation, ironically, is almost equal: the richest New Yorkers have made dramatically more, but they pay virtually the same percentage of taxes as everyone else.

Occupy Wall Street created the political space for the 2012 adoption of a Millionaire's Tax in New York State, a temporary tax on households making over \$2 million or single filers making \$1 million.⁵⁷ The tax is set to expire in 2017, but activists in New York City are maintaining the pressure and developing a narrative on issues of taxation as a tradeoff between subsidizing Wall Street and the 1% at the expense of New York City schools. Efforts such as the Hedge Clippers⁵⁸ target the richest hedge fund managers to demand that they pay their fair share. This type of political activism is essential to build a broad base of support that can preserve and enhance progressive taxation tools of all kinds, including income tax measures like the Millionaire's tax.

Income taxes are the only taxes that offset the regressivity of property and sales taxes; their progressivity should be heightened with more brackets with a much greater spread between the lowest and highest rates. However, changes to even municipal income taxes are often controlled at the state level. As Lander put it: "Albany sets our income tax. We don't control it, Albany has all the power."⁵⁹

C. Local Earned Income Tax Credit

Just as the federal Earned Income Tax Credit has kept millions of families above the poverty line, local Earned Income Tax Credit can offset the local income tax contributions from the poorest residents by providing a rebate. Local EITCs have been implemented in Denver, San Francisco, New York City, and Montgomery County, Maryland.⁶⁰ Local EITCs can simply use existing federal EITC systems to supplement the credit with an additional local EITC and thus can be implemented with a relatively low administrative burden.⁶¹

D. Occupational Privilege Taxes/Commuter Taxes

Income taxes can come in many other forms than those we are familiar with at the federal level. For example, an occupational privilege tax (or "commuter tax") allows municipalities to tax those

⁵⁶ New York City Taxes—Trends, Impact and Priorities for Reform. Fiscal Policy Institute. (2015)

⁵⁷ New York Tax Bill, Backed by Governor Cuomo, Hits Millionaires and Helps Middle-Class. Michael Gormley. Huffington Post. (December 8, 2011)

⁵⁸ For more information on Hedge Clippers, go to hedgeclippers.org.

⁵⁹ Brad Lander, New York City Council Member, January 28, 2015.

⁶⁰ *Cities at Work: Progressive Local Policies to Rebuild the Middle Class.* Joel Rogers & Satya Rhodes-Conway. Center for American Progress. (2014)

⁶¹ A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2011. Nicholas Johnson & Erica Williams. Center on Budget and Policy Priorities. (2011)

who commute in from lower-tax suburbs so they contribute their fair share to the roads, police and fire protection, and infrastructure that they use while they are in the city. Denver City Council Member Robin Kniech described her city's occupational privilege tax as necessary because "100,000 people commute into the core city for work, but they don't pay property tax. Denver's head tax means every employee pays \$5 and the employer pays \$2.50."⁶² Ideally an occupational privilege tax would be a percentage rate rather than a flat fee so that higher earners would contribute more, but even a flat tax is a step in the right direction so that residents of the city are not forced to subsidize the burdens suburban residents put on city infrastructure.

From 1971 to 1999 New York City had a commuter tax that was 0.45% applied to wages earned in the city and 0.65% applied to the proprietors' income, but it was repealed in 1999.⁶³ The arguments for re-instituting the commuter tax in New York City are strong: there are approximately 900,000 non-resident commuters working in New York City, they account for 35% of all New York City earnings, and the Independent Budget Office estimated that if the commuter tax were restored at the same tax rates as before, the City would collect \$860 million from it in FY 2016.⁶⁴ The IBO also estimated that if a progressive commuter tax were established at one-third of the resident income tax rate, it would generate \$1.7 billion in additional revenues. However, unlike the occupational privilege tax in Denver, the reinstatement of the commuter tax in New York City would require state approval.

In addition to a new source of progressive revenue, occupational privilege and commuter taxes address a fundamental imbalance between city cores and surrounding suburban municipalities. Residents often move out of the city core for cheaper homes and lower property taxes and thus do not pay into the property taxes that cities depend on to function. Occupational taxes and commuter taxes must be limited to the point that they do not spur outmigration of business from the city core, but most cities with large commuting populations have a wide latitude – and large revenues to gain – from instituting a progressive commuter tax.

E. Remove Capital Gains Tax Loopholes at the State Level

According to the Economic Policy Institute, changes to the federal capital gains tax that allow investment earnings to be taxed at a lower rate than income has been a far greater contributor to economic inequality since 1991 than either changes in wages or changes in capital income.⁶⁵ Reforming the capital gains tax has long been a target of progressive change at the federal level because it so disproportionately benefits the richest of the rich: the top one-tenth of 1% of

⁶² Robin Kniech, Denver City Council Member, January 21, 2015.

⁶³ New York City Taxes—Trends, Impact and Priorities for Reform. Fiscal Policy Institute. (2015)

⁶⁴ New York City Taxes—Trends, Impact and Priorities for Reform. Fiscal Policy Institute. (2015)

⁶⁵ Changes in Income Inequality Among U.S. Tax Filers between 1991 and 2006: The Role of Wages, Capital Income, and Taxes. Thomas L. Hungerford. Economic Policy Institute. (2013)

taxpayers received 47% of all capital gains in 2012 and the top 1% of taxpayers receive 71% of all capital gains.⁶⁶

States piggyback on the tax base identified by the federal government to impose their own capital gains tax. States exacerbate the profound unfairness of capital gains tax by adding even greater exemptions from taxation, depleting state general funds, and putting more pressure on municipalities. Over 30 states have some form of exemption for state capital gains tax, further shifting the local tax burden away from the richest of the rich and onto the rest of the population.⁶⁷ The form these state tax breaks take is often by excluding a portion of capital gains from state capital gains tax. At the very least, these loopholes should be closed so state capital gains tax applies to all capital gains.

F. Statewide Corporate Tax Reform

Several structural proposals exist for closing corporate tax loopholes at the state level. As a predicate consideration, the "physical presence" test for assessing income tax requires that an entity be present in the state before collecting taxes. The "economic nexus" rule allows for the assessment of taxes based on economic activities, which several states⁶⁸ have adopted in recent years. Secondarily, some states respond to so-called "nowhere income"—income that is not taxed in any jurisdiction because of differences in state taxation rules—by enacting a throwback rule, in which corporate profits are sent back to the states of production for tax purposes. Related to this proposal is the three-factor formula for tax assessment, a traditional method of corporate taxation that has given way to a single sales rule that does not capture corporate tax revenues as effectively. The three-factor formula takes into account property, payroll, and sales, allowing for taxation that reflects the full activity of the entity in the state.

Perhaps the most significant proposal for corporate taxation reform is "combined reporting." This requires multi-state corporations to add together the profits of *all subsidiaries* into one total before apportioning tax payments across the states. This prevents companies from shielding their assets in tax haven states like Nevada and Delaware and enables states to collect taxes that reflect that full presence of each corporation within their boundaries. Through 24 states currently use combined reporting to some extent, each state could improve this practice by enabling worldwide combined reporting, as opposed to reporting on entities within the United States alone.⁶⁹

⁶⁶ Raising Today's Low Capital Gains Tax Rates Could Promote Economic Efficiency and Fairness, While Helping Reduce Deficits. Chye-Ching Huang & Chuck Marr. Center on Budget and Policy Priorities. (2012)

⁶⁷ State Income Tax on Capital Gains. Judith Lohman. Connecticut General Assembly Office of Legislative Research. (2008)

⁶⁸ California, Colorado, Connecticut, New Hampshire, Oregon, and Wisconsin have shifted to this standard in the past decade. *90 Reasons We Need State Corporate Tax Reform*. Robert S. McIntyre, Matthew Gardner & Richard Phillips. Citizens for Tax Justice & The Institute on Taxation and Economic Policy. (2014)

⁶⁹ 90 Reasons We Need State Corporate Tax Reform. Robert S. McIntyre, Matthew Gardner & Richard Phillips. Citizens for Tax Justice & The Institute on Taxation and Economic Policy. (2014)

V. PROGRESSIVE FEES FOR SERVICES AND WELL-STRUCTURED FINES

Recommendations:

- Convert as many city services as possible including roads, sidewalks, and waste – to utilities.
- When applicable, apply conservation pricing so lower-income households pay a lower rate and bulk users such as commercial and industry pay higher rates.
- Enact general transfer agreements so funds can contribute to the general budget.
- Institute exemptions or rebates for low-income residents.
- Use development fees to cover the costs of growth
- Ensure that fees and even fines are structured progressively, which can increase revenue, increase conservation, and improve deterrence

Fees are attractive to municipalities because they are revenue measures that can generally be passed by city councils and do not require approval by state legislatures or referenda. However, state law often requires that fees raise no more revenue than the actual cost burden that is placed on the city's infrastructure. Where these restrictions apply, fees cannot be used to cross-subsidize other city services. But well-designed fees can correct existing regressive burdens. Reforms of the fee system are absolutely necessary for cities to meet their most basic obligations to residents and relieve stress on other areas of the budget, and to potentially free up funds that could be used for progressive measures. In the menu of progressive taxation reforms, addressing fees is low hanging fruit that municipalities can pursue immediately. According to Tacoma Council Member Mello, "Diving into rates and services law is a ripe area for innovation. It might not be the sexiest progressive issue, but it frees up revenue for basic human services."⁷⁰

Furthermore, unlike sales taxes and other regressive measures, fees are a stable source of revenue even in economic downturns. Mello added, "When all of our other revenue sources are going down, when property values shrunk after the tax and business taxes went down, our only

⁷⁰ Ryan Mello, Tacoma City Council Member, January 14, 2015.

stable source of revenue was from our utility fees."⁷¹ Fees based on services also have the added benefit of applying to the entire tax base, including large tax-exempt institutions like universities and hospitals.

The following discussion does not include harmful practices such as municipal court fees, fines, and bench warrants that raise revenues from over-policing. Because of the tremendous damage that over-policing and criminal law can have on families, law-enforcement should under no circumstances be viewed as a revenue opportunity and cities like Ferguson that depend on criminalizing populations to meet budgets must be reformed so there are no financial incentives to policing. The justice system should never be driven by profit motive. For an in-depth discussion of Ferguson and potential systemic approaches to over-policing, please see section VIII in this report, "Regionalism: A Potential Way Forward Between City and State for St. Louis and Beyond."

A. Conservation Pricing

Conservation pricing is a simple pricing structure that charges bulk users of a utility higher rates. Conservation pricing is commonly used for water and electricity, and can also further environmental goals of reducing waste. Any city service that can be converted into a utility – including garbage collection, stormwater drainage, and even roads and sidewalks – should institute conservation pricing so the largest users pay a higher price per unit. Conservation pricing is a way for large institutions such as big box retailers, industry, and even large tax exempt institutions such as universities and hospitals, to pay for basic systems and services and can potentially subsidize lower rates and fee exemptions for lower-income residents.

B. General Transfer Fund Agreements

For cities that own their own municipal utilities it is possible for the provision of services to generate a profit and contribute a percentage of its proceeds to the general fund. When fees can be broadly applied, if the funds are earmarked for progressive purposes, or for rebates to low-income residents, cities can transform fees into a vehicle for progressive redistribution.

A utility fund transfer occurs when a public utility pays into a governing jurisdiction's general fund. The rules regarding utility fund transfers vary by jurisdiction, as states and municipalities restrict utility payments differently. In the past, these transfers have taken on multiple forms, including: funds allocable to the utility (indirect cost reimbursement); a percentage of revenue; a return on the rate base; a property tax equivalent; a percentage of surplus; a specific revenue stream related to the utility; and a fixed-free transfer to meet general fund debt obligations.

⁷¹ Ryan Mello, Tacoma City Council Member, January 14, 2015.

Fund transfers emerge from the principle that earning a fair rate of return is a reasonable part of utility rates, meaning that rates are not specifically capped at cost. As stated, the legality of utility fund transfers varies by location, as some states have set this specific limitation.⁷² One possibility for marking an appropriate rate of return would be to compare public utility revenue to that of a comparable private utility. Generally, private utilities earn rates of return ranging from 9% to 12%.⁷³ Because public utilities have lower capital costs and are exempt from taxation, these entities might reasonably demand a lower rate of return. An effective transfer scheme would likely tie payments significantly to actual cost (the aforementioned indirect cost reimbursement) and feature significant disclosure of rate justification, all within a system that allows managers to easily predict costs to the utilities.⁷⁴ Transfer plans based on cost (direct and indirect) are least controversial, so municipalities could introduce such plans in order at least to offset the full budgetary burden created by utility service provision.

Beyond specific jurisdictions' limitations on utility rates, a few legal challenges exist. First, government bond covenants may require "economic" or "efficient" operation of public entities, and the inclusion of high rates of return may violate such a covenant. This is particularly the case because credit-rating agencies view fund transfers as contrary to best practice in utility management, leading to potential rating reductions. Nevertheless, this is a ripe area for municipal innovation and reform.

C. Stormwater Drainage Fees

Stormwater drainage is not the most glamorous front in the battle against inequality, but it is an example of a simple measure that can shift tax burdens onto large corporations and away from working families. Stormwater drainage fees are assessed by square footage of impervious area, so big box stores like Wal-Mart with large parking lots have to pay a larger share for their disproportionate burdening of the system. Furthermore, such fees also capture large tax-exempt institutions. Ithaca instituted a stormwater drainage tax based on impervious surface area on January 1st of 2015 and small home bills for drainage fell from \$100 per year to \$42 per year; Cornell is now paying \$135,000 a year in stormwater drainage fees.⁷⁵

⁷² In Kentucky, for example, rates are tied to "reasonable cost." Washington further specifies that transfers must be based on "true costs." California applies this principle to water and wastewater fees. *Utility transfers to the general fund: What is reasonable, fair, and legal?* Bryan A. Mantz. Journal of the American Water Works Association. (2012) ⁷³ Bluefield Water Works and Improvement Company v. Public Service Commission of West Virginia, 262 U.S. 679 (1923) and Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 391 (1940) are two significant cases governing the reasonableness of utility rates.; Utility transfers to the general fund: What is reasonable, fair, and legal? Bryan A. Mantz. Journal of the American Water Works Association. (2012)

⁷⁴ Utility transfers to the general fund: What is reasonable, fair, and legal? Bryan A. Mantz. Journal of the American Water Works Association. (2012)

⁷⁵ Kevin Sutherland, City of Ithaca Chief of Staff, January 29, 2015.

D. Sidewalk Utility Fees

While it is often most feasible to generate public support for measures to raise revenue for local schools, other pieces of necessary infrastructure are often forgotten. Jason West, the Mayor of New Paltz, said, "Sidewalk money has dried up almost completely. When one of your goals is to be more environmentally conscious through more walkability, that can be hard when you can't build sidewalks."⁷⁶ The City of Ithaca devised a creative solution to the problem by creating sidewalk districts, the first innovation of its kind in the country. Ithaca divided the city into five areas based on foot traffic and charged by parcel size, essentially turning sidewalks into a public utility. High traffic districts – specifically the downtown area and areas near Ithaca's campus – get charged a higher fees and each property is charged by parcel size, so large land owners pay the most.⁷⁷

E. Landlord Permit Fees and Fire Assessment fees

Gainesville, Florida is one of the largest three college towns in the nation by population, and it can be difficult to maintain quality housing in the area. To address this, Mayor Yvonne Hinson-Rawls instituted a landlord permit fee applied to landowners who wish to rent out their property. The revenue from the fee goes into the general fund, so it helps the overall budget, but it also pays for more code enforcement officers. These code enforcement officers can issue citations that in turn raise revenue when landlords are in violation and can fund further enforcement. These fees fall on the wealthier segments of Gainesville and primarily benefit the poorest residents. Hinson-Rawls says, "Landlord permit fees are a way to raise revenue and keep housing safe."⁷⁸

Gainesville is also one of the few cities in the country to charge a fire assessment fee to every resident. This fee is also at the nexus of revenue raising and home safety. The proceeds from the fee go to the general fund, and captures properties – like churches and nonprofits – that would otherwise be tax exempt. Since fire is one of the city services that is often underfunded, the fire inspection fee provides a funding stream and a value as a preventative measure.

Rawls has taken a proactive posture when it comes to the responsibility of landowners. She innovated a new program, funded by the revenue from the landlord permit fee, to clean up abandoned lots in the city and then charge the landowners for the work after the fact. The beauty of this system is that it doesn't require protracted interaction with recalcitrant, often absentee landlords before a blight in a community is fixed. Residents can see real changes, the initial outlay is covered by fees imposed by those most able to pay, and owners can't indefinitely delay meeting their responsibilities.

⁷⁶ Jason West, Village of New Paltz Mayor, January 20, 2015.

⁷⁷ Kevin Sutherland, City of Ithaca Chief of Staff, January 29, 2015.

⁷⁸ Yvonne Hinson-Rawls, Mayor of Gainesville, January 20, 2015.

F. Waste

The cost borne by cities for collecting and disposing of solid waste can instead pay for itself and even fund recycling and reduction programs if waste collection is converted into a utility and is charged according to conservation pricing. As opposed to a system in which residents pay the same amount regardless of how much trash they generate, pricing trash collection per bag or per unit of weight, sometimes referred to as "Pay as You Throw" (PAYT), serves multiple goals. First, if waste collection is burdening the general fund of the municipality, a PAYT system would transform solid waste collection into a self-sustaining service and would free up funds for other priorities. Secondly, by paying a variable rate based on how much garbage a user generates, the city can incentivize the environmental goal of waste reduction. Finally, the waste collection can subsidize the expansion of recycling services.

Culver City Mayor Meghan Sahli-Wells said, "When you work at the city level, you're dealing with the basic necessities, like trash, and it costs a lot to haul and store trash. Right now companies are placing the cost of the waste they produce on the rest of us and they need to take responsibility for that themselves. There's a movement for extended producer responsibility: California just passed a law stating that people who produce paint are responsible for taking back the cans, and the same should be true for batteries, light bulbs, sharps, and waste in general."⁷⁹ PAYT systems have been implemented across the country in over 7,000 communities as of 2006, but just a quarter of communities that could institute PAYT are doing so, representing huge potential for both municipal and environmental reform.⁸⁰

The City of Los Angeles has even found a way improve the efficiency of the private waste collectors who service multi-family homes and businesses as well. Previously, private haulers had clients all over the city, driving may miles in their polluting trucks and charging clients wildly different rates. Led by the Los Angeles Alliance for a New Economy, the Don't Waste LA coalition pushed for an ordinance adopted by the City Council to reform the system.⁸¹ The new law divides Los Angeles into 11 different zones and then awards the hauling contract for each zone to one private hauler through a competitive bidding process. This process allows communities to negotiate consistent, fairly applied rates rates – including conservation pricing – as well as labor standards and environmental standards.

G. Development Impact Fees

When most cities grow, they expand outward in rapidly growing developments that require large, upfront capital outlays. Municipalities have to pay for roads, water, and other infrastructure to reach these developments and construct expensive schools to serve these new areas. New developments are typically built for the richer segments of a city who want to move

⁸⁰ For more information on PAYT programs, as of 2006, go to

http://www.epa.gov/osw/conserve/tools/payt/states/06comm.htm.

⁷⁹ Meghan Sahli-Wells, Culver City Mayor, January 13, 2015.

⁸¹ For more information on Don't Waste LA, go to http://www.dontwastela.com/.

into newer, larger houses, but all residents – including low income residents – subsidize this new growth by paying taxes into the general fund that is used to pay for the extension of city infrastructure and services. Development Impact Fees correct this distortion in the market by instituting a one time fee to the development for expanded facilities and services. Development Impact Fees are currently used in about half of the states, are most common in fast growing areas, and are particularly useful in states with property tax caps.⁸² When cities are not allowed to raise revenue through higher property taxes, they can still raise revenue from wealthy developers through development impact fees because they are not a tax that falls under state-level tax restrictions, but a fee that can be passed by the city council.

However, unlike property taxes, development impact fees are a one-time charge and the amount is limited to what the city can prove will be the actual impact on municipal budgets, established through a study prior to the permit request. According to Gregory Burge, Associate Professor of Economics at the University of Oklahoma, "Newer more rapidly developing communities put pressure on existing infrastructure. On average, these new developments are likely to serve higher income people. Development Impact Fees just shift the burden of building new schools and other large capital costs from the existing residents – who are more likely to be lower income – to the people actually who will actually be living in the area. Cities in the US typically expand through explosive suburban growth, and that's where Development Impact Fees are most important."⁸³

H. Service Fees Based on Income

Income-based service fees emerge from the principle that those who earn less income should not be required to pay as much for services as those who can afford them. While examples are not abundant, transit appears to be one area in which progressive fees have been instituted in a number of jurisdictions. Developing the latest—and largest—model for progressive transit pricing, the Seattle area has instituted a two-tiered pricing system for transit across the metropolitan area, with one rate for most riders and a lower rate for individuals making less than 200% of the poverty line.⁸⁴ Similar plans exist on smaller scales in various parts of the country, including San Francisco and Greene County, Ohio, though the latter involves the purchase of travel vouchers by social service agencies rather than tiered pricing.

I. Fines Based on Income

Income-based fines (also called "day fines," "unit fines," or "structured fines") were developed in the 1920s and currently exist in varying forms in several European countries.⁸⁵ The principle is

⁸² Cities at Work: Progressive Local Policies to Rebuild the Middle Class. Joel Rogers & Satya Rhodes-Conway. Center for American Progress. (2014)

⁸³ Greg Burge, Professor of Economics at the University of Oklahoma, March 16, 2015.

⁸⁴ *Targeting Inequality, This Time on Public Transit.* Kirk Johnson, The New York Times. February 28, 2015.

⁸⁵ These include Finland, Sweden, Denmark, Germany, Austria, France, and Switzerland.

that a high-income person violating the law should pay higher fines than a low-income person violating the same law. In the United States, only a handful of jurisdictions have tested structured fines, including Staten Island (1988); Milwaukee (1989); and Maricopa, AZ, Des Moines, IA, Bridgeport, CT, and various Oregon counties (together in a 1991 pilot program).

While the results of the aforementioned tests were not universally consistent, several potential benefits exist. First, structured fines offer increased accountability, deterrence, and fairness by reaching wealthy offenders more effectively. A \$200 littering fine has little deterrent effect for a millionaire. In addition, structured fines can include a more efficient use of resources (if they offset prison sentences) and can raise government revenue. Certain problems have existed in implementing this strategy, as well, including fine collection challenges and possible statutory limitations to the amount that a court can impose.

Finland recently made headlines by issuing a speeding ticket for \$103,000 to a wealthy businessman for going 65 miles per hour in a 50 zone.⁸⁶ Although the severity of the fine may seem extreme, the logic of fines is to deter dangerous behavior and a flat fine does not have the same deterrent effect on people of varying levels of income. In Finland, before issuing the ticket, the police officer pings the federal income database to determine the amount of the ticket.

If such a plan were applied in the United States it could also have the effect of shifting the incentives for over policing away from poor communities of color. To the extent that over-policing is motivated both by underlying systemic racism, but also financial incentives, fees based on income would make many of the fines based on criminalization of poverty – such as loitering and sleeping in public – less attractive to law enforcement.

An income-based system could apply beyond policing to all fines that the city levies. In particular, fines associated with building code violations could make housing safer and would fall primarily on landlords rather than renters.

⁸⁶ Finland, Home of the \$103,000 Speeding Ticket. Joe Pinsker. The Atlantic. (March 12, 2015)

VI. SALES TAXES

Recommendations

- To the full extent possible, shift municipal budgets away from sales taxes.
- If sales taxes must be implemented, apply them as broadly as possible, do not favor particular industries.
- Earmark sales taxes for programs that disproportionately help the poor.
- Exempt necessities such as food and medicine.
- Advocate for state reform to expand the sales tax base that municipalities can tax to include services and internet sales.

Sales taxes and excise taxes contribute the greatest portion of state and local revenue in the United States, constituting on average 23.7% of all state and local tax collections.⁸⁷ Sales taxes are the primary reason why local taxes generally fall disproportionately on the poor: the sales tax applies to everyone and the poorest citizens spend a much larger share of their income on spending than rich people. Municipalities that aim to build a more progressive tax system must shift the proportion of their revenue from sales taxes to state income taxes or more progressive property tax structures. Furthermore, sales taxes are often the most volatile revenue stream in municipal budgets because during economic downturns collections may drop dramatically. However, sales tax will likely always be a major source of municipal revenue, and therefore cities should take the measures they can to make them less regressive.

A well-designed, broad-based sales tax can still be made less regressive by creating rebates and exemptions that soften the blow for the poorest citizens. In addition, by ensuring that the revenues are disbursed in a progressive manner that benefits the poorest citizens, sales taxes can create progressive outcomes. It is important to keep in mind that the welfare states of social democracies in Western Europe are funded through a value-added-tax, or VAT, and the expenditures of this regressive tax result in wealth transfers that ultimately decrease inequality.⁸⁸ While the United States operates a very different context without the same public institutions or services, the European VAT model is illustrative that progressive outcomes can come out of regressive taxes.

⁸⁷ Who Pays? A Distributional Analysis of the Tax Systems in All 50 States. The Institute on Taxation and Economic Policy. (2015)

⁸⁸ What liberals could learn from Ted Cruz's flat tax. Dylan Matthews. Vox. (March 30, 2015)

A. Exemptions for Necessities

Most localities already exempt necessities, such as groceries or medicine, from sales taxes. Since the purchase of necessities constitutes a greater share of income for poorer people, exemptions for necessities will disproportionately favor the poor.

B. Sales Tax Credit

Exemptions for necessities should also be coupled with sales tax credits for those making below a certain income. The disproportionate burden paid by the poorest residents in state and local taxes comes primarily from sales taxes, so offsets in the form of a rebate would blunt the overall regressivity.

C. Apply Sin Taxes According to Price not Excise

Generally excise taxes are applied to disfavored goods, such as alcohol, tobacco, and soda, at a flat rate per unit, not price. Although these taxes have been proven to be somewhat effective in curbing use of harmful products, these "sin taxes" tend to fall disproportionately on the poor who typically spend a higher percentage of their income on these products.⁸⁹ One way to make sin taxes more rational and better serve the deterrent purpose is to reform the tax to be based on price rather than quantity: a bottle of top-shelf Scotch should be subject to more tax than a case of beer. Sin taxes should be a percentage of the cost and can potentially even be coupled with a luxury tax so more expensive alcohol and tobacco is charged at a higher rate of sales tax.

D. Luxury Tax

Luxury taxes can be placed on non-essential goods or expensive goods to shift the burden of raising revenue through sales taxes from the poorest to the richest. A luxury tax can be placed on cars above a specific price, jewelry, furs, or other non-essential high-value items. The challenge with a luxury tax at the local level is that these expensive commodities can be purchased outside of the taxing jurisdiction.

E. Transient Occupancy Tax

Transient Occupancy Taxes (TOTs), also known as the hotel bed tax, are available to cities in California and can be a lighter political lift because they are borne primarily by visitors and do not affect residents as much. Transient Occupancy Taxes are charged to hotel room stays,

⁸⁹ Poor Smokers, Poor Quitters, and Cigarette Tax Regressivity. Dahlia K. Remler. (2004)

short term vacation rentals, and even camp site stays of less than one month.⁹⁰ Generally, the tax is paid disproportionately by people with more money, those who travel either for business or leisure. TOTs have proven to be quite successful in Culver City where, according to Mayor Wells, "We bring in more Transient Occupancy Tax dollars than property tax dollars."⁹¹ TOTs are especially useful in cities with high rates of tourism, and other states should allow their municipalities to raise funds through TOTs.

F. Sales Tax For Services

Sales taxes for services represent an enormous potential untapped revenue stream for cities. As Denver Council Member Robin Kniech said, "I don't think anyone is taxing services well. Sales taxes are on goods, but rich people pay more for services. We don't tax tanning salons, massages, nail parlors. If we don't start taxing services, in a matter of 50 years our cities will be in a crisis."⁹² Michael Mazerov of the Center for Budget and Policy Priorities agrees that there is "huge potential in instituting a sales tax on services," however Mazerov warns that any tax on services must be harmonized at the state level because local sales taxes are tied to state definitions. To expand the base of purchases to which the sales tax applies at the local level, the state has to expand its own sales tax base and then that expanded base can be applied to local option sales taxes. Mazerov explains, "In the vast majority of states with sales taxes, tax receipts come with a schedule of the locality where it originated and states administer the tax on behalf of the local government" so state-level advocacy is a practical necessity in order to institute a sales tax in most cases.⁹³

G.Sales Tax For Internet Sales

Sales taxes for internet sales present a similarly large opportunity for revenue and, given the international nature of internet sales, even stronger compliance issues that require state harmonization. Internet providers have expressed strong resistance to paying taxes to thousands of different jurisdictions in the United States and assert that local internet sales taxes would be unduly burdensome on commerce. As more transactions move online, state level advocacy on internet sales tax is becoming more of a necessity.⁹⁴ Currently, if someone buys an item at the local department store, they pay a sales tax, but if that same resident purchases the same item from their computer, the city loses that potential revenue. In fact, advocates for internet sales taxes may find unlikely allies in companies that rely on brick and mortar stores.

⁹⁰ For more information on the Transient Occupancy Tax implemented in San Diego, go to http://www.sandiego.gov/treasurer/taxesfees/tot/.

⁹¹ Meghan Sahli-Wells, Culver City Mayor, January 13, 2015.

⁹² Robin Kniech, Denver City Council Member, January 21, 2015.

⁹³ Michael Mazerov, Center on Budget and Policy Priorities Senior Fellow, March 17, 2015.

⁹⁴ Four Steps to Moving State Sales Taxes Into the 21st Century. Michael Leachman & Michael Mazerov. Center on Budget and Policy Priorities. (2013)

H. Earmarking Sales Tax Revenue for Progressive Purposes

Although it is difficult to raise revenue in a progressive way from sales taxes, progressive budgeting is possible by attempting to – whenever possible – earmark sales taxes to apply directly to those most in need. Such earmarking is oftentimes necessary anyway for municipalities to get permission from the state to institute new taxes. For example, although the city of Tacoma had reached its limit on raising revenue through sales taxes for the general fund, they were able to pass a sales tax of 0.1% for mental health services and substance abuse support. Mello says, "We generate \$1-2 million every year to curb chemical dependency in our city."⁹⁵ Programs like this one at the very least distribute funds raised disproportionately by the poor to a program that serves primarily a low-income sector.

⁹⁵ Ryan Mello, Tacoma City Council Member, January 14, 2015.
VII. PROPERTY TAXES

Recommendations:

- Remove existing tax breaks and giveaways to businesses.
- If possible, charge different rates of property tax for residential and commercial and industrial properties with higher rates for higher value land, such as a "mansion tax."
- Provide exemptions for residents earning below a set income level (rather than providing exemptions based on percentage of income devoted to property taxes) and implement "circuit breakers" so there is a limit on the percentage of income any resident pays in property taxes.
- Ally with other municipalities to lobby to lift state property tax caps.
- Ally with community organizations to exert political pressure on large tax-exempt institutions to forge Payment in Lieu of Taxes (PILOT) agreements.

A. The Context: Property Tax Caps or Overtaxing a Poor Base

Property taxes are the second largest source of state and municipal revenue, right behind sales taxes, constituting 22.2% of state and local budgets.⁹⁶ Unlike other forms of wealth, property is a fixed part of a municipal tax base and thus will likely always be a significant component of municipal revenues. Significantly, this characteristic of property also makes real estate interests the largest political players in municipal revenue battles. New York City Councillor Brad Lander noted, "In the same way that industries like oil and gas and wall street dominate federal politics, the real estate industry tends to dominate politics at the municipal level. Rent seekers in industries with liquid assets aren't interested in trying to change municipal policy, but real estate plays a major role."⁹⁷

Since housing wealth is the most commonly held form of wealth in the United States, property taxes are a form of wealth tax that does not target the richest effectively.⁹⁸ Statistically, property

⁹⁶ The ITEP Guide to Fair State and Local Taxes. The Institute on Taxation and Economic Policy. (2011)

⁹⁷ Brad Lander, New York City Council Member, January 28, 2015.

⁹⁸ American Does Tax Wealth, Just Not Very Intelligently. Matthew Yglesias. Slate. (March 6, 2013)

taxes as implemented today are regressive. In 2007, low-income families paid 3.7% of their income, while middle-income families paid 2.9% of their income and wealthy families paid 1.4% of their income in property taxes.⁹⁹ There are many poorer property owners who are "house rich and income poor" who end up paying a significant percentage of their incomes in property taxes are a hidden tax on renters, with some models estimating that 75% of property taxes are ultimately passed on to renters.¹⁰⁰

These factors render property taxes preferable to sales taxes, but not as progressive of an option as shifting revenue sources to progressive income taxes. Property taxes will likely always be a significant portion of any municipal budget, but cities with poor tax bases are often caught in a trap of raising property taxes on already poor households to raise revenue. As Myron Orfield, Director of the University of Minnesota's Institute on Metropolitan Opportunity said, "Poor cities with poor housing and poor businesses can't really get money from anywhere, even when they raise taxes. When you look at cities like Ferguson you see really high property taxes with very little revenue."¹⁰¹ That's why it's important to not only reform property taxes to make them more progressive, but to also diversify revenue streams, because municipalities are typically overly reliant on property taxes.

Many states have also limited municipalities' capacity to levy or increase property taxes through property tax caps. Property tax caps can hold down the rates of property taxes municipalities can apply or limit the annual increase in the municipalities total property tax revenue – a much more restrictive and regressive type of cap. The measures below can help increase progressivity and potentially provide some tools to work around state level restrictions.

B. Wealth Taxes: Great in Theory, But Not Politically Realistic

Thomas Piketty's groundbreaking book, "Capital in the 21st Century" posits that a comprehensive, global wealth tax is the solution to rapidly expanding inequality.¹⁰² In fact, wealth inequality is far more severe than income inequality, which just measures wealth *gains* and not accumulated wealth. According to an Economic Policy Institute analysis, the share of wealth that belongs to the top 1% is double their share of income.¹⁰³

Unfortunately, a broader wealth tax that goes beyond property to all global assets is primarily a theoretical construct and there has been no significant movement in actually getting a wealth tax passed in the United States. Some commentators even claim that a wealth tax would require a constitutional amendment.¹⁰⁴ While a wealth tax would be an even more progressive option than

¹⁰⁰ The Taxation of the Poor. Howard Chernick & Andrew Reschovsky. Journal of Human Resources. (1990)

¹⁰² Capital in the 21st Century. Thomas Piketty. (2013)

⁹⁹ The ITEP Guide to Fair State and Local Taxes. The Institute on Taxation and Economic Policy. (2011)

¹⁰¹ Myron Orfield, Professor of Law at the University of Minnesota Law School, March 9, 2015.

¹⁰³ This viral video is right: We need to worry about wealth inequality. Ezra Klein. The Washington Post Wonkblog. (March 6, 2013)

¹⁰⁴ Looking Beyond Income, to a Tax on Wealth. Anna Bernasek. The New York Times. (February 9, 2013)

an income tax, it is not politically feasible at any level of government today, certainly not at the municipal level.

Create Different Tax Rates for Commercial and Residential Property Whenever possible, municipalities should find ways to create different tax rates for different types of zoned properties with the highest rates applied to commercial and industrial uses. Unfortunately, in many jurisdictions, creating different municipal tax rates for different types of property is either forbidden by the state constitution or requires state approval. When municipalities have the option to charge different rates to commercial properties, these property tax rates should also be applied progressively. In California, although Prop 13 imposes major restrictions, it is possible to charge differential rates for commercial and residential properties, but San Francisco Supervisor John Avalos would ideally like to impose a parcel tax, "That would apply a graduated rate depending on how much money the parcel of land brings in."¹⁰⁵

C. Eliminating Tax Breaks

The most significant action that cities can take to build progressivity into the property tax system is to simply eliminate the vast range of tax breaks cities currently award to corporations. According to Good Jobs First, 99 companies have received \$19 billion in cumulative subsidies that could have paid for education, health and human services, and needed infrastructure improvements.¹⁰⁶ Furthermore, these subsidies often go to low-road employers who pay poverty level wages that depress the tax base even further.

In addition to eliminating tax breaks for big businesses, cities should eliminate property tax breaks for wealthy individuals. In New York City, the 421-a property tax exemption has become the City's costliest tax break at \$1.1 billion per year.¹⁰⁷ The 421-A tax break was instituted in the 1970s when the city was concerned that new residential development would be stalled by migration to the suburbs. Today, there are more non-primary resident owners benefiting from 421-A tax breaks than primary residents, so this subsidy is draining public funds for the benefit of billionaires and large developers at a time when development in the city would occur with or without the subsidy.

D. Property Tax Breaks Based on Income or "Circuit Breakers"

Certain jurisdictions have also opted for income tax breaks for property taxes. Taxpayers can benefit from these measures through itemized tax deductions and through income tax credits.

¹⁰⁵ John Avalos, San Francisco Board of Supervisors Member, January 26, 2015.

¹⁰⁶ Tax Breaks and Inequality: Enriching Billionaires and Low-Road Employers in the Name of Economic

Development. Philip Mattera, Kasia Tarczynska & Greg LeRoy. Good Jobs First. (2014)

¹⁰⁷ New York City Taxes Ripe for Reform. Fiscal Policy Institute. (2015)

Currently, 30 states allow this type of deduction, but the primary flaw is that low-income taxpayers are less likely to itemize their tax payments.

These tax breaks are often referred to as "Circuit breakers"¹⁰⁸ because they "break" the applied property tax rate when the tax bill would exceed a set percentage of a household's income, setting a cap, and preventing a property tax overload, analogous to an electrical circuit breaker. The main challenge to implementation is that circuit breaker credits typically require applicants to opt-in, and low-income populations tend to be less likely to apply for such benefits.

To most effectively target low-income residents, residents, exemptions for property taxes should be provided for residents making below a specific income level, and not based on a percentage of their income devoted to property taxes. For example, households earning below \$40,000 would be eligible for an exemption, but not all households whose property tax bills are over 25% of their income. Exemptions that are structured based on percentage of income going to property taxes often disproportionately benefit higher income households with high value property. Percentage based exemptions leave large sums of money on the table that could go to cities' general funds and disproportionately favor wealthier residents.

E. Homestead Exemptions

Homestead exemptions allow for the reduction of property taxes for homeowners by guarding a certain portion of property value from taxation. Currently, 40 states have homestead exemptions in some form, with some exempting property value based on percentage and others setting dollar amounts to be exempted. This exemption is helpful for reducing property tax burdens generally, but dollar amount exemptions are more effective for reducing the regressive impact of such taxation. In addition, a flat dollar exemption indexed to inflation would allow the exemption to fully reflect economic conditions, making it as effective as possible in providing tax relief.

One distinct benefit to homestead exemption implementation is that it is given automatically based on homeownership. The Institute on Taxation and Economic Policy has identified two challenges in homestead exemption implementation: (1) renters do not receive tax relief through these exemptions and (2) exemptions can be poorly targeted.¹⁰⁹

F. Deferral Programs

Deferral programs allow homeowners to defer property tax payment for a period, and they are specifically targeted to the elderly and those most in need of tax relief. Importantly, tax deferrals do not erase property tax obligations; they merely delay payment, which is then made with interest. As such, only taxpayers in genuine need are likely to use this program. In addition, deferrals are typically limited to taxpayers above a certain age.

¹⁰⁸ Property Tax Circuit Breakers. Institute on Taxation and Economic Policy. (2011)

¹⁰⁹ The ITEP Guide to Fair State and Local Taxes. The Institute on Taxation and Economic Policy. (2011)

G. Eliminating Business Improvement Districts and Special Economic Zones

Business Improvement Districts and other types of special economic zones draw a boundary within the city where an additional tax is levied and then restrict the expenditure of those funds to improvements within that zone. Ideally, if an additional tax is levied, the municipality should be able to distribute those funds accordingly to high need areas and fund essential services for all residents, without restriction. Typically Business Improvement Districts and special economic zones exist in high value areas, so already wealthy businesses keep the proceeds from the taxation for themselves. Business Improvement Districts typically use these funds for things like better lighting or landscaping or larger projects such as convention centers. The priorities of the rest of the residents of the city, particularly in cities where schools are under-funded and infrastructure is crumbling, are likely diverge from the priorities of downtown businesses that typically occupy a Business Improvement District. Creating these taxation zones within a city can further concentrate wealth and leave other areas of the city underserved. Taxes should be levied on these businesses and new developments, but the proceeds must be distributed fairly and democratically throughout the city.

H. Eliminating or Reforming Tax-Increment Financing (TIFs)

Tax-Increment Financing is another method of drawing special districts within a municipality that can restrict public revenues and disproportionately benefit large developers and unfairly burden other residents. Tax Increment Financing works by first drawing up a TIF district and assessing the property values within that district. From that point forward, revenue is divided into two streams: the first stream is the revenue that would be collected at this initial assessment, the second is the additional revenue – or "increment" – that is generated as the result of improvements. The basic idea is to fund improvements to an area through the additional revenue that such improvements will generate. For example, a city could get a bond to build roads and sewers to an undeveloped area, then service that bond through payments financed from the additional revenue generated from the new development sparked by the infrastructure improvements.

TIFs were initially intended to jumpstart development in blighted areas, but in practice TIFs have become a way for residents to subsidize the profits of big developers in areas that would have been developed anyway. TIFs increasingly go to big box retailers and shopping centers – often paying poverty wages to their workers – and contribute to sprawl rather than density.¹¹⁰ Furthermore, when TIF districts are put in place where development would have happened anyway, the city simply loses out on needed revenues. This can be devastating for cities since

¹¹⁰Straying From Good Intentions: How States Are Weakening Enterprise Zones and Tax Increment Financing Programs. Alyssa Talanker, Kate Davis, and Greg Leroy. Good Jobs First. (2003).

TIFs often divert revenues away from the general fund for decades. To pay for needed infrastructure in newly developed area, development impact fees, discussed above, are a fairer course of action.

Chicago is notorious for its massive network of TIF districts, which were projected to collect nearly \$376 million in 2014.¹¹¹ That money is diverted away from local taxing bodies – such as school districts – and into a fund controlled by the mayor for special economic projects. Aaron Krager of Action Now Chicago has been working on school funding related issues in Chicago and he says, "These TIF funds are a result of siphoning off property taxes into a special account for the mayor to use at his discretion. Estimates hover at about \$1 billion in available funds if they were emptied & transferred for general use."¹¹²

I. Payments in Lieu of Taxes (PILOTs)

Payments in lieu of taxes (PILOTs) are voluntary payments made by tax-exempt organizations such as universities, hospitals, utilities, and government entities. These institutions don't have to pay property taxes, so PILOT agreements are negotiated between the city and each institution. In cities where the dominant industry is higher education or hospitals, PILOTs can make an enormous difference. Jason West, the mayor of New Paltz, New York said, "Property taxes are now at about \$4.90 per \$1000 of property value. But 60% of my city is off the tax rolls: there's the State University of New York, churches, and nonprofits. That means 40% of my tax base is picking up 100% of the cost for maintaining the cost of the city. If everyone paid their fair share, then taxes would go down to \$1.90 per \$1000."

PILOTs are particularly important in cities like Cleveland and Pittsburgh where deindustrialization has created a major economic shift from a taxable industrial tax base to hospitals and universities which cannot be taxed. According to Zach Schiller of Policy Matters Ohio, "The biggest employer in Pittsburgh is the University of Pittsburgh Medical Center and the biggest employer in Cleveland is the Cleveland Medical Clinic. The universities aren't far behind. These institutions put a burden on city infrastructure, but they don't pay property taxes." These large institutions may be technically non-profits, but many of them have endowments in the billions and huge staffs who drive on city roads, whose children are educated in public schools, and who must be protected by city police and fire services.

Schiller goes on to say that instituting PILOTs is primarily "a matter of public opinion. It's a matter of political reality." Although hospitals, for example, cite the public service they provide through indigent care, these claims are often overblown, particularly with the advent of the Affordable Care Act and Medicaid reimbursements. In the end, specific calculations of public service contributions are mired in ambiguity and ultimately cities need political, rather than policy arguments to shift public opinion and convince these institutions to agree to PILOTs. Philadelphia City Councillor Wilson Goode introduced a non-binding resolution stating, "PILOTs

¹¹¹Chicago Public Schools to get TIF surplus, but impact for schools unclear. Becky Vevea and Alex Keefe. WBEZ91.5 (November 12, 2013).

¹¹²Aaron Krager, Action Now Chicago, March 17, 2015.

or voluntary contributions could generate tens of millions of dollars for the School District to address its current fiscal crisis," in an effort to pressure "mega-nonprofits" such as universities and hospitals to make payments to the city.¹¹³

It is unlikely that these payments will completely pay the full amount of foregone revenue, but they can make a significant contribution. Kevin Sutherland, Chief of Staff of the Mayor of Ithaca said, "When I value Cornell's property, they should be paying \$11 million. Our mayor is only asking for \$6 million and right now they're only paying \$1.2 million. It's a tough political lift." But some institutions do better than others. Cambridge City Councillor Leland Cheung said, "MIT and Harvard contribute about \$10 million in PILOTs and we partner with them for redevelopment of areas that need work."

Cities with analogous peer institutions – such as hospitals of similar size or universities with similar endowments – should collaborate with one another and compare PILOT agreements. The highest paying PILOT agreements can demonstrate what is possible in other localities and give cities leverage in their negotiations and help build political will to make these large institutions pay their fair share.

J. Pied-a-tierre tax

In major U.S. cities, such as New York and San Francisco, real estate has become an attractive investment for the world's elite to park their capital. These billionaires buy luxury apartments that often lie empty, typically in cities that are experiencing housing crises. In New York City, some activists have proposed a pied-a-tierre tax that would apply a 4% property tax to apartments and homes owned by non-primary residents. According to the Fiscal Policy Institute, if a pied a tierre tax was applied in New York to properties with a market value above \$5 million, it would generate \$250 million annually.¹¹⁴

¹¹³Wilson Goode: "Mega-Nonprofits" Should Do More to Help Schools. Joel Mathis. Philadelphia Magazine. (March 24, 2015)

¹¹⁴New York City Taxes— Trends, Impact and Priorities for Reform. Fiscal Policy Institute. (2015)

VIII. REGIONALISM: A WAY FORWARD FOR ST. LOUIS & BEYOND

Regionalism represents a new approach to local governance that emphasizes collaboration among multiple municipalities in a metropolitan statistical area to improve efficiency, reduce competition, and strengthen overall economic and social health. Specifically, local authorities can improve and strengthen municipal revenue structures by using regional tax-base sharing in conjunction with the other two pillars of regionalism: regional governance and regional land use planning. When implemented effectively, as has been done most notably in the Minneapolis-St. Paul region, regionalism has the ability to dramatically reduce inequality among residents, increase efficiency and reduce costs in development and services, and generate long term sustainable and equitable revenue.¹¹⁵

A. Regional Governance

The first pillar of regionalism, regional governance, is an institutional framework of broad policies and practices that seek to strike a balance between allowing local control over issues that are addressed best locally while promoting cooperation on issues that affect larger regions, such as affordable housing, transit, infrastructure, and taxation and revenue. The idea is that some things should be organized on a regional level rather than a municipal level in order to maximize efficiency in economies of scale and reduce inequality in various ways. Regional governance can be done through strengthening regional organizations that already exist and finding new ways to encourage collaboration between individual municipalities for efficiency. In the Portland, Oregon and Minneapolis-St. Paul regions, new and independent bodies were developed to assess regional assets and infrastructure, and develop an analysis of what were regional issues and what were local issues. Out of the Minneapolis-St. Paul region, hereinafter referred to as the Twin Cities model, came the Metropolitan Development Investment Framework, a guiding tool for determining which public functions - including economic development, land use planning, libraries, parks, transportation, waste water collection, and tax base sharing - are best suited for regional organization.¹¹⁶

B. Regional Land Use Planning

Another pillar of regionalism is land use planning. Land use planning addresses the localized nature of planning that contributes to unbalanced growth, costly fragmented planning, and the destruction of valuable agricultural land and sensitive open space. It is based on the premise that regions can make more efficient use of their land through cooperation than through competition. For the purposes of this report, the most important benefit of land use planning is

¹¹⁵ Northeast Ohio Metropatterns. Myron Orfield & Thomas Luce. Ameregis. (2008)

¹¹⁶ Northeast Ohio Metropatterns. Myron Orfield & Thomas Luce. Ameregis. (2008)

that it helps local officials coordinate investments in roads, highways, sewers, and other utilities, thereby saving millions in valuable revenue that municipalities can reinvest in communities in other progressive ways.¹¹⁷

C. Regional Tax-Base Sharing

Regional tax-base sharing is a local revenue model in which various municipalities split the benefits of new development in the region. This revenue system addresses the detrimental effects of inter-local competition, which is often a race to the bottom. Competition for businesses and high-income residents tends to have detrimental effects on the regional workforce, economy, and environment.¹¹⁸ The central objectives of regional tax sharing is redistribution of fiscal resources and improved regional planning.¹¹⁹

In the United States, two major examples of regional tax sharing exist: the Twin Cities in Minnesota and the Meadowlands in New Jersey.¹²⁰ Minnesota's Fiscal Disparities Program was established in 1971 and took effect in 1975.^{121 122} The program establishes a plan for seven counties in the Twin Cities region to share growth of commercial-industrial (C/I) property. Under this program, the counties share 40% of the region's annual C/I growth using a formula based on their fiscal capacity to provide services.¹²³ According to this formula, communities with greater fiscal capacity (market value per capita) contribute more than communities with less capacity. As a result, wealthier communities tend to be "contributors," though two-thirds of communities have been "receivers" under the program. Importantly, communities levy taxes *after* tax-base contributions, so communities that contribute more than they receive to the regional pool must increase taxes in order to sustain the same level of services. The overall effect of the program has been to reduce community disparity: Studies have indicated that tax base sharing "reduces overall property tax base inequality in the region by about 20% (as measured by the Gini coefficient). It reduces the ratio of the highest to lowest tax base per

¹¹⁷ Northeast Ohio Metropatterns. Myron Orfield & Thomas Luce. Ameregis. (2008)

¹¹⁸ School Finance, Cities, and the Hope for Regional Reform. Myron Orfield. Buffalo Law Review. (2007).

¹¹⁹ Further-specified objectives include: providing a way for the community to share in regional growth; reducing competition for tax base; working within existing governing systems; encouraging regional cooperation; making resources available for development; and encouraging environmental protection. *Fiscal Disparities in the Twin Cities*. Metropolitan Council Presentation. (2008)

¹²⁰ Virginia also allows revenue, tax base, or growth sharing programs for local jurisdictions, as used in Charlottesville and Albemarle County. *Tax Base Sharing*. New York State Commission on Local Government Efficiency & Competitiveness. (2008)

¹²¹ Officially established under the Charles R. Weaver Metropolitan Revenue Distribution Act; codified in Minnesota Statutes, chapter 473F.

¹²² Affluent suburbs challenge Twin Cities' unique tax-base sharing law. Steve Dornfeld. MinnPost. (September 22, 2011)

¹²³ Minnesota's Fiscal Disparities Programs: Twin Cities Metropolitan Area and Iron Range. Steve Hinze & Karen Baker. Minnesota House of Representatives Research. (2005)

household from 25 to 8 and it reduces the ratio of the second highest to second lowest tax base per household from 10 to 4.^{"124}

The Twin Cities model has attracted the most attention among regionalist reformers, but the Meadowlands model may also be instructive. The Hackensack Meadowlands Master Plan, adopted in 1972, is focused more on the reduction of the fiscal impacts of land use regulation than on the reduction of fiscal disparities.¹²⁵ Designed to protect the wetlands in the 14 surrounding municipalities, the program enables the region to share benefits of industrial, commercial, and residential uses, in addition to those for parks, highways, and other purposes. The program includes provisions for tax sharing "stabilization," in which payments are tied to previous obligations or receipts.

D.90 Fergusons

In 2014, Ferguson, MO erupted onto the national scene after Darren Wilson, a white police officer, killed unarmed Black teenager Michael Brown. The incident sparked national outcry over police brutality, but it has also revealed and invited critique of systemic tragedies in municipal revenue generation. In the tiny town of Ferguson, which has its own police force, city council, mayor, fire department, utilities, and other services, the second largest source of revenue is fines and fees levied through the police and courts.¹²⁶ Faced with a lack of options, the municipality has for decades resorted to devising a system in which Black communities are overly-criminalized in order to maintain revenue for the city. Tickets are issued for everything from failure to cut one's lawn to sleeping over at someone's house without being on the occupancy certificate, and when people aren't able to pay the exorbitant fines, they are locked in jails and forced to pay more.¹²⁷ The problem extends well beyond Ferguson: throughout the tragically fragmented St. Louis County, 1.3 million people are served by 115 local governments including St. Louis City, County, 90 other Ferguson-like municipalities, and 23 fire districts. The costs associated with funding all 115 governments (excluding airport and water service fees) has reached a staggering \$2 billion per year.¹²⁸

In nearby Edmundson, the city averages \$600 per person per year in court fines, essentially an additional tax on residents disguised as a system for keeping the community safe.¹²⁹ Other towns throughout the county derive 40% or more of their annual revenue from the petty fines and fees collected by their municipal courts. The majority of these fines are for traffic offenses, but they can also include fines for fare-hopping on the light rail system, loud music, zoning

¹²⁴ Minnesota's Fiscal Disparities Programs: Twin Cities Metropolitan Area and Iron Range. Steve Hinze & Karen Baker. Minnesota House of Representatives Research. (2005)

 ¹²⁵ *Tax Base Sharing.* New York State Commission on Local Government Efficiency & Competitiveness. (2008)
¹²⁶Archcity Defenders Municipal Courts White Paper. Archcity Defenders. (2014)

¹²⁷ How municipalities in St. Louis County, Mo., profit from poverty. Radley Balko. Washington Post. September 3, 2014.

¹²⁸Introduction to Public Finance Report. Better Together STL. (2014).

¹²⁹ *Ferguson Became Symbol, but Bias Knows No Border*. Campbell Robertson, Shaila Dewan, & Matt Apuzzo. New York Times. (March 7, 2015).

violations for unkempt property, violations of occupancy permit restrictions, trespassing, wearing "saggy pants," business license violations, and other vague infractions such as "disturbing the peace" or "affray" that give police officers a great deal of discretion to look for other violations. Recently, a legal aid group known as ArchCity Defenders found a large group of people outside

a courthouse in Bel-Ridge, MO who had been fined for not subscribing to the town's only approved garbage collection service.¹³⁰

Despite being home to only 11% of Missourians, the 90 municipalities in the St. Louis region bring in 34% of all municipal fines and fees statewide (\$45,136,416 in 2013).¹³¹ Further, 20 of the 21 municipalities that derive at least 20% of their general budget from fines and fees and 13 of the 14 municipalities that derive their largest percentage of revenue from fines and fees are located north of Olive Boulevard and within the boundary of I-270.¹³² This region is 62% black, and 22% of citizens are below the poverty line, compared to St. Louis County as a whole, which is only 24% black and 11% below the poverty line.¹³³ This makes it evident that the dependence on fines and fees to finance the disjointed system of municipalities throughout the region is conducted at the expense of Black and poor residents. Research shows that fines-and-fees revenue increased at a time when property-tax revenue declined, which is also due to racial animosity and white flight.¹³⁴ According to a recent Washington Post article, Black residents throughout the region "feel as if their governments see them as little more than sources of revenue."¹³⁵

E. The Opportunity

Many of the structural injustices in Ferguson, throughout St. Louis County, and in similar municipalities throughout the country would benefit greatly from regionalism broadly and taxbase sharing specifically. By consolidating utilities, coordinating land use, and combining to one police force and court system, these municipalities would save millions of dollars. Further, by implementing tax-base sharing, these localities would better be able to pool their resources with those of St. Louis City - which has a much larger and more diverse tax base - and establish reliable long term revenue sharing plans. According to regionalist expert Professor Myron Orfield of the University of Minnesota Law School, tax-base sharing reduced inequality significantly in the Twin Cities after it was implemented.¹³⁶ In St. Louis, a metro area with a higher gini coefficient than the Twin Cities metro area, tax-base sharing empirically promises not

¹³⁰ How municipalities in St. Louis County, Mo., profit from poverty. Radley Balko. Washington Post. September 3, 2014.

¹³¹ Public Safety - Municipal Courts. Better Together. (2014)

¹³² Public Safety - Municipal Courts. Better Together. (2014)

¹³³ Public Safety - Municipal Courts. Better Together. (2014)

¹³⁴ Public Safety - Municipal Courts. Better Together. (2014)

¹³⁵ How municipalities in St. Louis County, Mo., profit from poverty. Radley Balko. The Washington Post. (September 3, 2014)

¹³⁶ Region. Myron Orfield & Thomas Luce. (2009)

only to generate more reliable and sustainable revenue, but to reduce inequality amongst citizens.¹³⁷

Indeed, St. Louis County already has a rudimentary sales tax revenue sharing structure, and there are already grassroots and advocacy efforts to move towards other aspects of regionalism. Although there has been no comprehensive single study that has looked across St. Louis City and County to determine how the City would improve services and costs by streamlining and eliminating redundancies,¹³⁸ different groups have been moving different pieces. A group called Better Together is seeking to address the "fragmented nature of local government throughout St. Louis City and County." The group plans to "examine how municipal services are delivered to the people who live within the boundaries of St. Louis City and County, compare the status quo to best practices, and identify opportunities for improved effectiveness and cost."¹³⁹ Another grassroots effort is Take Back St. Louis, a coalition of groups highlighting the inconsistencies in local governments throughout the region giving huge tax breaks to wealthy energy companies and other corporations, while making up for the loss in revenue by taxing low income residents.¹⁴⁰ Take Back St. Louis seeks to persuade local governments to collect fair taxes from these companies and use the money to invest in local green economy initiatives.

F. The Political Process

Implementing tax-base sharing, let alone the other pillars of regionalism, is a politically daunting feat that cannot be done solely at the municipal level. Adopting regional governance requires state legislation. As a political matter, such reforms will only happen if municipal officials and grassroots organizations mobilize to put pressure on their state leaders to carry out assessments, develop legislation, and then pass it. In New York City, for example, the New York State Commission on Local Government Efficiency and Competitiveness recommended that any tax sharing program: (1) establish a process for identifying affected properties; (2) identify the types of taxes to be shared; (3) specify the percentage of taxes that each community would receive; and (4) specify the process of sharing taxes.¹⁴¹ However, Myron Orfield and Thomas Luce of the University of Minnesota Law School explain in an interview that in the Minnesota case, about 60% of those in the region stood to benefit as receivers and only 40% would be contributors in the short run. For this reason, representatives in the state legislature simply outvoted those in opposition. Depending on how MSA's are drawn out in other areas, the majority of beneficiaries can simply organize to outvote those who will be contributors, because more often than not there will be more receivers than contributors.¹⁴² Even better, in the long

¹³⁷ Regional Tax Base Sharing: The Twin Cities Experience. Thomas Luce. University of Minnesota. (1997); Interview with Myron Orfield, Director of Institute on Metropolitan Opportunity, March 9, 2015.

¹³⁸Introduction to Public Finance Report. Better Together STL. (2014).

¹³⁹Introduction to Public Finance Report. Better Together STL. (2014).

¹⁴⁰ For more information on Take Back St. Louis, visit: http://www.takebackstlouis.com/

¹⁴¹ Tax Base Sharing Brief. New York State Commission on Local Government Efficiency & Competitiveness (Accessed March 2015)

¹⁴² Dr. Tom Luce, Research Director at Institute on Metropolitan Opportunity, March 9, 2015

run, contributors will benefit because regional planning and tax-base sharing ensure sustainability in revenue even when economic conditions take a turn for the worse. Although it seems politically daunting, municipal elected officials must ban together and lobby at the state level, side-by-side community organizations, in order for municipalities to secure additional and sustainable revenue through a tax-base sharing scheme.

IX. RECOMMENDATIONS

Solving the municipal revenue crisis is necessary for achieving racial and economic justice in our urban centers. Taxation happens differently throughout every municipality, and it is based on a complex web of state and local laws. States hold a disproportionate amount of legislative power in this web, and the further one zooms out from a locality, the more opportunities there are to implement increasingly progressive policies. Ultimately, then, any strategy to truly build comprehensive progressive revenue systems will have to reform the current system in different ways at municipal, county, regional, and state levels. The following recommendations represent a menu of options that will not all be applicable in every locality. However, most municipalities can pursue one or a combination of these approaches. The recommendations are divided into four categories: Municipal Income Taxes, Progressive Fines & Fees, Sales Taxes, Property Tax Reform, and Regional and State Transformation.

Municipal Income Taxes

- Expand Earned Income Tax Credits to ease the burden of regressive revenues, such as fees and sales taxes, on the poorest citizens
- Eliminate corporate tax breaks at the city level, particularly Tax Increment Financing and Business Improvement Districts
- If municipal income taxes exist, expand progressivity by creating more tax brackets and a wider spread in rates between the lowest and highest brackets
- To the extent possible, shift municipal budgets away from sales taxes

Progressive Fees & Fines

- Convert city services into municipality-owned utilities when possible, and charge utility fees to all users
- Apply conservation pricing so lower-income households pay a lower rate and bulk users such as commercial and industry pay higher rates
- Institute exemptions or rebates for low-income residents
- This includes water, sewage, stormwater, electricity, sidewalks, roads, and potentially fire
- Apply utility fees so even tax-exempt institutions have to pay
- Enact general transfer agreements so funds can contribute to the general budget
- Enact "commuter" or occupational-privilege taxes
- Use development fees to cover the costs of growth
- Ensure that fees and even fines are structured progressively, which can increase revenue, increase conservation, and improve deterrence

Sales Taxes:

- When sales taxes must be used, apply them as broadly as possible, do not favor particular industries
- Earmark sales taxes for programs that disproportionately help the poor
- Exempt necessities such as food and medicine

Property Tax Reform

- If possible, charge different rates of property tax for residential and commercial and industrial properties with higher rates for higher value land, such as a "mansion tax"
- Provide fixed-dollar exemptions rather than percentage-based exemptions and implement "circuit breakers" so there is a limit on the percentage of income any resident pays in property taxes
- Ally with community organizations to exert political pressure on large tax-exempt institutions to forge Payment in Lieu of Taxes (PILOT) agreements

Regional and State Transformation

- Enact Tax-Base Sharing legislation across MSAs or other regional boundaries.
- Foster collaboration between cities within the state and community groups to advocate for progressive revenue at the city and state level. Message that any cuts at the state level will have to be filled by regressive sources at the city level, falling disproportionately on the poor.
- Remove existing tax breaks and giveaways to businesses.
- Ally with other municipalities to lobby to lift state property tax caps.
- Advocate for state reform to expand the sales tax base that municipalities can tax to include services and internet sales.
- Wherever possible, institute a state-level income tax with a portion of revenue directed back to the locality from which it originates

X. CONCLUSION

The most effective strategy that budget-constrained municipal leaders can pursue is to band together with other leaders across multiple localities and find common cause with issue-based activists. Combining forces will create more power and give municipalities the chance to reform state revenue structures, collect more money from the state, and lobby for legislation that gives municipalities more ability to enact creative legislation for increasing revenue. A wide variety of stakeholders exist throughout each state who can be brought into these coalitions to build campaigns to transform state revenue policy and practices. In the meantime, one of the most effective reforms that municipalities can make is making all of their services independently sustainable through utility fees, shifting the majority of the cost of those fees onto businesses and wealthier residents, and protecting lower income residents by capping the amount they pay or issuing credits to them. Municipalities can also pursue a wide variety of tweaks within existing municipal revenue structures to make them more progressive and less regressive.

Ultimately, there are no shortage of clever and creative ideas to solve municipal revenue problems. Countless scholars, elected officials, and advocates have insightful ideas on how to solve the problem. The biggest barrier to enacting progressive municipal revenue strategies is an imbalance of power at the state level that favors keeping revenue structures regressive in favor of business interests and the interests of the wealthy. Any successful strategy must address state level legislation and must be conscious of the need to shift political power through organizing. Then and only then can we solve the municipal revenue crisis and ensure that our cities continue to be beacons of hope for the progressive movement.

APPENDIX 1: RESOURCES: INSTITUTIONS AND EXPERTS

A number of organizations and individuals have done considerable work on the subject of municipal revenue and health. Below are a few of them, many of which were useful in the drafting of this report.

Think Tanks

American Cities Project, Pew Charitable Trusts

Pew's American Cities Project conducts original research and analysis to help policymakers understand the challenges facing urban centers and promising policy options that can improve fiscal outcomes for localities. The project conducts research on a number of issues including the fiscal and economic challenges facing cities, their short and long term ability to deliver core services in the face of tight budgets and heightened needs, and it maintains a partnership with the National League of Cities.

Policy Matters Ohio

Policy Matters is a non-profit policy research institute dedicated to creating a more vibrant, equitable, sustainable and inclusive Ohio through research, strategic communications, coalition building and policy advocacy. Policy Matters has written a number of publications that deal with progressive municipal revenue generation. We interviewed Zach Schiller, Research Director at Policy Matters, for this report.

Lincoln Institute of Land Policy

The Lincoln Institute of Land Policy is a leading resource for key issues concerning the use, regulation, and taxation of land. Providing high-quality education and research, the Lincoln Institute strives to improve public dialogue and decisions about land policy through education, research, policy evaluation, demonstration projects, and the dissemination of information, policy analysis, and data through their publications, web site, and other media. By bringing together scholars, practitioners, public officials, policy makers, journalists, and involved citizens, the Lincoln Institute integrates theory and practice and provides a nonpartisan forum for multidisciplinary perspectives on public policy concerning land, both in the U.S. and internationally.

Tax Policy Center

The Tax Policy Center is a joint venture of the Urban Institute and Brookings Institution, made up of nationally recognized experts in tax, budget, and social policy who have served at the highest levels of government. TPC provides timely, accessible analysis and facts about tax policy to policymakers, journalists, citizens, and researchers. The Tax Policy Center has issued a number of publications and other resources on municipal taxation and budgeting that were helpful in compiling this report. The State & Local Finance Initiative is a project of the Tax Policy Center that provides state and local officials, journalists, and citizens with reliable, unbiased data and analysis about the challenges state and local governments face, potential solutions, and the consequences of competing options. It gathers and analyzes relevant data and research, and also make it easier for others to find the data they need to think about state and local finances. A core aim is to integrate knowledge and action across different levels of government and across policy domains that too often operate in isolation from one another.

Center on Wisconsin Strategy

Based at the University of Wisconsin-Madison, COWS is a nonpartisan but values-based national think-and-do tank that promotes "high road" solutions to social problems, or solutions that promote shared prosperity, environmental sustainability, and efficient democratic government with state and local leaders. COWS houses the Mayor's Innovation Project and produces analyses of municipal taxation and budgeting policies.

Joel Rogers, Director of COWS, is a leading researcher and practitioner on building progressive cities and institutions

Mayor's Innovation Project

The Mayors Innovation Project, housed at the Center on Wisconsin Strategy, is a learning network among American mayors committed to "high road" policy and governance: shared prosperity, environmental sustainability, and efficient democratic government.

MIP co-sponsored a report entitled Cities at Work: Progressive Strategies to Rebuild the Middle Class with the Center for American Progress, which contributed to this report.

Institute on Metropolitan Opportunity

The Institute on Metropolitan Opportunity investigates the ways that laws, policies and practices affect development patterns in U.S. metropolitan regions, with a particular focus on the growing social and economic disparities within these areas. Through top-level scholarship, mapping and advocacy, the Institute provides the resources that policymakers, planning officials and community organizations need to address reform in taxation, land use, housing, metropolitan governance and education.

Myron Orfield, a professor at the University of Minnesota Law School and one of the country's foremost authorities on metropolitan governance, directs the Institute on Metropolitan Opportunity. He and Professor Thomas Luce were interviewed for this report, and their research contributed as well.

Massachusetts Municipal Association

The Massachusetts Municipal Association is a nonprofit, nonpartisan statewide organization that provides advocacy, training, publications, research and other services to Massachusetts cities and towns. They bring municipal officials together to establish unified policies, to advocate these policies, and to ensure the effective delivery of services to community residents.

They have a number of resources on municipal financing that they provide to local Massachusetts officials.

Academics and Experts

Gregory S. Burge

Gregory Burge is an Associate Professor of Economics at the University of Oklahoma. His primary fields of interest are urban and public economics. Most of my work investigates questions pertaining to housing markets, land use regulation (primarily development impact fees), and state and local taxation

Notable Literature:

- "<u>Strategic Fiscal Interdependence: County and Municipal Adoptions of Local Option</u> <u>Sales Taxes</u>" (with Brian Piper), *National Tax Journal*, Vol. 65, No. 2, 2012.
- "<u>Effects of Proportionate-Share Impact Fees</u>" (with Arthur C. Nelson and John Matthews), *Housing Policy Debate*, Vol. 18, No.4, 2007.
- "Estimating Aggregate Levels of Property Tax Assessment within Local Jurisdictions: An Extension of the Ihlanfeldt Model to Multiple Land Uses" (with Keith Ihlanfeldt), *National Tax Journal*, Vol. LVIII, No.4, 2005.
- <u>"The Effects of Development Impact Fees on Local Fiscal Conditions</u>", Included in The Changing Landscape of Local Public Revenues. Editors Gregory Ingram and Yu-Hung Hong, Lincoln Institute of Land Policy: Spring 2010.

Yu-Hung Hong

Yu-Hung Hong is the Founding Director of the Samuel Tak Lee MIT Real Estate Entrepreneurship Laboratory, the Founding President and Executive Director of the Land Governance Laboratory, and is a Professor in the MIT Department of Urban Studies and Planning.

Notable Literature:

- Land Value Capture and Land Policies. 2012. Cambridge, MA: Lincoln Institute of Land Policy (Edited with Gregory K. Ingram).
- Municipal Revenues and Land Policies. 2010. Cambridge, MA: Lincoln Institute of Land Policy (Edited with Gregory K. Ingram).

- Land Policies and Their Outcomes. 2007. Lincoln Institute of Land Policy (Edited with Gregory K. Ingram).
- Evaluating Statewide Smart Growth Policies in the United States. 2012. Informationen zur Raumentwicklung (Information on Spatial Development) (Published by Federal Institute for Research on Building in Bonn, Germany; with Gregory K. Ingram).

Gregory K. Ingram

Gregory Ingram is an urban economist and the former director of the Lincoln Institute of Land Policy. He has published in urban economics, housing markets, transportation, land policy, infrastructure, evaluation, and economic development. Mr Ingram has also been the Director-General of Operations Evaluation at the World Bank and an Associate Professor of Economics at Harvard University.

Notable Literature:

- Municipal Revenues and Land Policies by Gregory K. Ingram (Editor), Yu-Hung Hong (Editor)
- Smart Growth Policies: An Evaluation of Programs and Outcomes
- Evaluating Smart Growth: State and Local Policy Outcomes by Gregory K. Ingram, Yu-Hung Hong

Greg LeRoy

Greg LeRoy is the Executive Director of Good Jobs First, a national policy resource center for grassroots groups and public officials that provides timely, accurate information on best practices in state and local job subsidies. Greg has long been considered an expert on reforming corporate subsidies and smart growth economic development strategies for states and localities.

Notable Literature:

- No More Candy Store States and Cities Making Job Subsidies Accountable by Greg LeRoy with Richard Healey, Dan Doherty, and Hany Khalil
- Community Benefits Agreements: Making Development Projects Accountable by Julian Gross, Legal Director of the Partnership for Working Families, Greg LeRoy of Good Jobs First, and Madeline Janis-Aparicio of Los Angeles Alliance for a New Economy
- The Great American Jobs Scam: Corporate Tax Dodging and the Myth of Job Creation

Thomas Luce

Thomas Luce is the Research Director at the University of Minnesota Law School Institute on Race and Poverty. He holds expertise in economic development and fiscal issues in American metropolitan areas, the quantitative effects of tax rate disparities on metropolitan growth patterns, and the Twin Cities Fiscal Disparities Tax-base Sharing Program. In addition, Thomas Luce produces simulations of the effects of hypothetical tax-base sharing in different metropolitan areas throughout the country.

Notable Literature:

- Orfield, Myron and Thomas Luce, The Struggle to Grow Equitably: Sprawl, Taxes and Race in America's Metropolitan Areas, in progress.
- Orfield, Myron and Thomas Luce, "Regional Tax-Base Sharing: A Policy to Promote Fiscal Equity And Efficient Development Practices at the Metropolitan Scale," in Regional Planning for a Sustainable America: How Creative Programs are Promoting Prosperity and Saving the Environment, Carleton Montgomery, ed., Rutgers University Press, 2011.
- Luce, Thomas F., Jr. "Regional Tax-base Sharing: The Twin Cities Experience," in Local Government Tax and Land Use Policy, Helen F. Ladd, editor, Edward Elgar Publishing, Washington D.C., 1998.

Vaida Maleckaite

Vaida Maleckaite is a recent PhD graduate with expertise in government debt and municipal bond markets, revenue diversification and portfolio theory, and financial regulation.

Notable Literature:

- "Strategic Path to Fiscal Sustainability: Revenue Diversification and the Use of Debt by U.S. Municipal Governments" Defended: May 2012.
- "The Great Recession's Impact on Big City Budgets in the United States: Dallas, TX" Municipal Finance Journal (2011).

Michael Mazerov

Michael Mazerov is a Senior Fellow with the Center on Budget and Policy Priorities State Fiscal Project. His work focuses on state and local taxation of business under corporate income and sales taxes, including taxation of Internet commerce. He has written reports on strategies for closing state corporate income tax loopholes and broadening state sales taxation of services. Mazerov has also conducted research on state and local budget and tax policy issues for the American Federation of State, County and Municipal Employees.

Notable Literature:

- Congress Should End Not Extend the Ban on State and Local Taxation of Internet Access Subscriptions By Michael Mazerov
- State "Income Migration" Claims Are Deeply Flawed By Michael Mazerov

Myron Orfield

Myron Orfield is the Director of the Institute on Metropolitan Opportunity at the University of Minnesota Law School. He has written three books and dozens of articles and book chapters on local government law, spatial inequality, fair housing, school desegregation, charter schools, state and local taxation and finance, and land use law. Orfield's research has led to legislative

and judicial reforms at the federal level and state level reform in Minnesota, Illinois, Michigan, California, New Jersey, Connecticut, Massachusetts, Washington, Oregon, and Maryland. Orfield was elected to both the Minnesota House of Representatives and Senate, where he was the architect of a series of important legislative changes in land use, fair housing, and school and local government aid programs.

Notable Literature:

- Model Tax Sharing Legislation Statute, in American Planning Association Growing Smart Legislative Guidebook: Model Statutes for Planning and the Management of Change (1996) (drafted major model tax sharing statute)
- Tax Equity Devices and Tax Relief Programs, in American Planning Association Growing Smart Legislative Guidebook: Model Statutes for Planning and the Management of Change (1996) (legal commentary to model tax sharing statute)
- Tax Equity and Land Use, in Charter of the New Urbanism (Congress for a New Urbanism, ed., McGraw Hill, 2000).
- The Need for Tax Base Sharing, in The Value of Land: The Lincoln Institute for Land Policy Annual Review (1998). (Debate with Professor William Fischel of Dartmouth Economics Dept).

Cynthia L. Rodgers

Dr. Cynthia Rogers is an Associate Professor at the Oklahoma University Department of Economics where she focuses on Regional and Urban Economics, State and Local Public Finance, and Local Economic Development. She is also on the editorial boards of Review of Regional Studies and Growth and Change.

Notable Literature:

- "Local Option Sales Taxes and Consumer Spending Patterns: Fiscal Interdependence Under Multi-tiered Local Taxation," with Greg Burge. Regional Science and Urban Economics, 41: 46-58, 2011.
- "Tax Cuts and Employment Growth in New Jersey: Lessons from a Regional Analysis," (with W. R. Reed), Public Finance Review, 32(3):269-291, May 2004.
- "The Contribution of Local Sales and Income Taxes to Fiscal Autonomy: Commentary," in ed. G. Ingram and Y. Hong, Municipal Revenues and Land Policies, (Cambridge, Ma: Lincoln Institute of Land Policy: Cambridge) 2010.
- "Indecent Proposal? The Success and Failure of Local Fiscal Ballot Initiatives" with Gregory Burge

Joel Rogers

Joel Rogers is the Sewell-Bascom Professor of Law, Political Science, Public Affairs, and Sociology at the University of Wisconsin-Madison and director of COWS and all of its subsidiary projects and initiatives (Mayors Innovation Project, Center for State Innovation, Efficiency Cities Network, State Smart Transportation Initiative, etc.). Rogers has written widely on American politics and public policy, has advised many governments, candidates, and movement leaders, and helped found and operate several progressive NGOs (Center for a New Democracy, New Party, Economic Analysis Research Network, Apollo Alliance, Emerald Cities Collaborative, ALICE, etc.). Along with many academic honors, he is a recipient of a MacArthur Foundation Genius grant, and was named as one of Newsweek's 100 living Americans most likely to shape U.S. politics and culture in the 21st century.

Zach Schiller

Zach is the Research Director for Policy Matters Ohio, a non-profit research institute based in Cleveland. He has written about foreclosures, economic development, job growth, unemployment insurance, tax policy, and is a member of the board of managers of the Ohio Poverty Law Center.

APPENDIX 2: INTERVIEWS WITH ELECTED OFFICIALS AND ACADEMICS:

Elected Officials Interviewed

Council Member Gayle McLaughlin - Richmond, CA Supervisor John Avalos - San Francisco, CA Council Member Kwanza Hall - Atlanta, GA Mayor Meghan Sahli-Wells - Culver City, CA Supervisor Eric Mar - San Francisco, CA City Commissioner Yvonne Hinson-Rawls - Gainesville, FL Council Member Brad Lander - New York City, NY Council Member Robin Kniech - Denver, CO Council Member Nick Licata - Seattle, WA Council Member Ryan Mello - Tacoma, WA Chief of Staff Kevin Sutherland, Office of Mayor Svante Myrick - Ithaca, NY Mayor Jason West - New Paltz, NY Council Member Christopher Johnson - Yonkers, NY Mayor Barbara Mallett - East Spencer, NC Mayor Lisa Wong - Fitchburg, VA Vice Mayor Allison Silberberg - Alexandria, VA Chairwoman Marina Dimitrijevic- Milwaukee County, WI Council Member Elizabeth Glidden - Minneapolis, MN Council Member Brian Cummins - Cleveland, OH

Academic/Researchers Interviewed:

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