An Overview of Sales Tax Options for the City of Statesboro, Georgia

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Introduction

Local governmental entities such as the City of Statesboro, Georgia are involved in the enigmatic quandary of providing increased amounts of public services while attempting to keep taxes low. This perennial struggle has forced the City of Statesboro and other municipalities to explore other revenue options like the levying of sales taxes, excise taxes, and other forms of fees (Gelfand, Mintz, and Salsich, Jr., 2007). The aforementioned variety of taxes helps to supplement property taxes and maintain adequate services while simultaneously staving off severe budgetary deficits (Gelfand et al., 2007). By diversifying the various forms of taxes levied by municipalities, the tax burden does not come directly from property owners but is shared with those who produce, use, and consume different kinds of goods and services (Gelfand et al., 2007). Additionally, diversified revenue options allow the City of Statesboro and other local governmental entities to stabilize and increase their tax yield (Gelfand et al., 2007). Therefore, by discussing the revenue options available to the City of Statesboro, the following memorandum will explore economic classifications as such classifications are connected to taxation, establish the various forms of sales taxes available to the City of Statesboro, and finally, the amount of revenue those forms of sales taxes might earn for the City of Statesboro.

Economic Classifications Relating to Taxation

There are numerous forms of economic classifications that relate to taxation. The first economic classification of taxation is whether a tax is progressive or regressive. Taxes are progressive if the tax rate increases as the taxpayer's income or wealth being taxed increases (Mikesell, 2011). An example of a progressive tax structure includes the income tax levied by the federal government, which has higher marginal rates for someone in higher income brackets (Gelfand et al., 2007). Alternatively, a tax is regressive if the tax burden is greater for persons with lower income or wealth than for persons with higher incomes or wealth (Gelfand et al., 2007). An example of a regressive tax structure is the sales or consumption tax; the consumption tax is a tax imposed on the consumption or use of goods and services (Mikesell, 2011). Such a tax is considered regressive because individuals with lower incomes are usually forced to spend larger portions of their income on consumption taxes than do their counterparts with higher income or wealth (Mikesell, 2011).[1]

The second economic classification of taxation are measurements of tax elasticity; tax elasticity refers to the degree of response one variable has to changes in another variable (Johnson, 2013). The price elasticity of demand for a particular good or service is the response the amount of that good or service has in relation to changes in price (Johnson, 2013). Likewise, price elasticity of supply refers to the degree of proportionality with which the quantity of a commodity offered for sale on the market changes in response to the going price (Johnson, 2013). For example, items that have price elasticity refer to goods or services that are less urgently or specifically desired by consumers while items used constantly in daily life are believed to have less price elasticity (Johnson, 2013).

Elasticity rates are used to assign values to a specific prediction of the consequences of the price change for the quantity of a good being purchased or service being offered (Johnson, 2013). An elasticity greater than one (1.00) is referred to as relatively elastic and an elasticity less than one (1.00) is referred to as relatively inelastic; an elasticity equaling exactly one (1.00) is referred to as unit elastic (Johnson, 2013). Inasmuch, the elasticity rate for sales taxes is 0.781; the low elasticity rate for sales tax implies that sales taxes are relatively inelastic; meaning that even in times of economic growth, revenues from sales taxes will have a relatively low yield

[1] See Appendix A for chart entitled "Comparing Types of Taxes: Averages for All States"

(Christian, 2013). In contrast from sales taxes, property taxes do not necessarily correspond with fluctuations in the economy (Christian, 2013). Because property taxes are not associated with economic upswings or downturns, it is of critical importance to note that the City of Statesboro and other local and state governmental entities have absolute control over the property tax (Christian, 2013). The millage rate used to calculate all ad valorum taxes or property taxes within the City of Statesboro and other local and state governmental entities goes up or down from manipulations made directly by the specific governmental entity with such sovereign authority over a specific political subdivision (Christian, 2013). In fact, property taxes are the only tax source over which local governments can exercise complete control, allowing for relatively quick adjustments to changing economic circumstances (Christian, 2013).

The third economic classification of taxation, or intergovernmental aid payment is whether a tax is considered cyclical, countercyclical, or non-cyclical. A tax is classified as cyclical when revenues earned from the tax rise and fall as the market rises and falls (Gelfand et al., 2007). A commonly accepted example of a cyclical tax is the sales or consumption tax; the sales tax is considered to be a cyclical tax because purchases and therefore sales taxes increase when the economy is in a period of upswing, and decline during periods of economic decline (Gelfand et al., 2007). A countercyclical tax is a tax that varies in inverse proportion to the fluctuations in the market; conversely, a tax is considered to be non-cyclical is when the tax's variations are unrelated to market oscillations (Mikesell, 2011). Contrasting from the previous example of cyclical taxes, the property tax is an example of a non-cyclical tax because the property tax remains a reasonably secure revenue source during both times of economic growth and recessions (Gelfand et al., 2007).

The City of Statesboro is considering alternative sources of revenue, primarily the feasibility of levying an additional sales tax. A summation of the previously mentioned economic classifications of taxation as they specifically relate to the levying of an additional sales tax, might yield important insights. Sales or consumption taxes are regarded to be regressive, inelastic, and cyclical (Gelfand et al., 2007; Mikesell, 2011). The sales tax is regressive because lower income individuals are likely to spend more of their income or wealth on sales or consumption taxes; a sales or consumption tax is cyclical since consumer purchases and consequently revenues earned from sales taxes are related to the market, causing increased revenues during times of economic expansion and decreased revenues during time of economic decline; and finally, sales taxes are relatively inelastic since during times of economic growth, sales taxes remain somewhat stagnant, or do not increase as rapidly as growth of the economy, because demand for certain goods and services remain consistent with times of economic recession (Gelfand et al., 2007; Mikesell, 2011).

Types of Sales Taxes Available to the City of Statesboro, Georgia

The City of Statesboro is similar to most other American state and local governments, in that the City of Statesboro levies a tax on the production, use, or consumption of goods and services (Gelfand et al., 2007). The reliance from local governments in the state of Georgia and elsewhere in the United States upon sales taxes has increased exponentially as public pressure has strengthened to reduce property taxes while concurrently maintaining consistent amounts of public services (Gelfand et al., 2007). Since the City of Statesboro is continually involved in the persistent effort of providing more public services with similar amounts of annual revenue, the following section will discuss the implications of the City of Statesboro levying a second Local Option Sales Tax (LOST) or a Municipal Option Sales Tax (MOST).[2]

According to the Georgia Municipal Association (GMA) (2011), "the LOST is a one percent sales tax activated by a local referendum and imposed on the purchase, sale, rental, storage, use, or consumption of tangible personal property and related services." Georgia state law (O.C.G.A. 48-8-81) designates one hundred and fifty-nine special taxing districts for the purpose of levying a LOST (GMA, 2011). Within Bulloch County, the governments of the qualified municipalities (Brooklet, Portal, Register, and Statesboro) and the government of Bulloch County failed to reach a revenue distribution agreement and, such an impasse caused municipal and county leaders to designate all LOST revenues to educational purposes (GMA, 2011).[3] These LOST revenues are not subject to renegotiation and go directly to the Bulloch County Board of Education (GMA, 2011). Because each qualified municipality and Bulloch County do not currently levy a LOST, each governmental entity is eligible to negotiate a second LOST (GMA, 2011).

Revenue data from year 2007 provided by the Georgia Department of Revenue provides a sound base for forecasting revenue amounts for the City of Statesboro should a second LOST be levied (GDOR, 2007). Given that the LOST devoted to the Bulloch County Board of Education, generates an average of $10,165,430.98 annually based on 2008 through 2012, the assumption can be made that a second LOST would generate less than $10,165,430.98 in annual revenue distributions directly to the City of Statesboro because revenue distributions to the

[2] See Appendix C for City of Statesboro Revenue Source Percentages
[3] The term qualified municipality refers to municipalities which impose a tax other than the LOST and which provide three of the following services: water, sewage, garbage collection, police protection, fire protection or library services. Municipalities that meet these conditions can share in the distribution of LOST revenues (GMA, 2011).

county and qualified municipalities would be based on population rather than economic activity (GDOR, 2007).

To be more precise, a revenue forecast can be drawn by analyzing data from the Special Purpose Local Option Sales Tax (SPLOST) levied in Bulloch County and distributed amongst Bulloch County and qualified municipalities within Bulloch County. Comparable with the LOST the SPLOST is a one percent sales tax activated by a local referendum and imposed on the purchase, sale, rental, storage, use, or consumption of tangible personal property and related services (GMA, 2011). Intergovernmental revenues or SPLOST revenue distributions from years 2003-2012 average a total of $4,791,111 (Statesboro CAFR, 2012).[4] By no means is this an exact forecast of what revenue distributions might entail from a second LOST but such a forecast does allow decision-makers and other stakeholders the opportunity to monitor, maintain, and evaluate revenue sources (Mikesell, 2011).

The second revenue option available to the City of Statesboro is to levy a Municipal Option Sales Tax (MOST). The MOST is activated by public referendum and can be used for property tax relief, infrastructure improvements, the provision of municipal services, or any combination thereof (GMA, 2012). The City of Statesboro along with other Georgia municipalities share over $7 billion in needed capital improvements; over $3 billion of this need is for water, sewer, and storm-water improvements, and another $1.6 billion is needed for transportation purposes (GMA, 2012). The remainders of the capital needs are devoted to public safety, sold waste facilities, parks, green-space, downtown development, and historic properties (GMA, 2012).

[4] See Appendix B for Intergovernmental revenue data.

By allowing the voters of the City of Statesboro to vote in a MOST referendum, municipal voters could be afforded the ability to vote for funding measures for current services and prepare for future governmental service endeavors, while providing an alternative to the property tax (GMA, 2012). If such a public referendum were to pass, a MOST levied by the City of Statesboro would likely offer the city an estimated $8 million to $8.5 million (Christian, 2013). The MOST offers the City of Statesboro direct control over revenue disbursements, property tax rollbacks by providing property tax relief to all residents within municipal limits, and ultimately eliminates competition with Bulloch County and other qualified municipalities for already limited local sales taxes (GMA, 2012).

While levying a MOST is undoubtedly the most legitimate revenue option for the City of Statesboro and other qualified municipalities around the state of Georgia, choosing to levy a MOST becomes problematic when evaluating the political realities inherent to the state of Georgia. The City of Atlanta, Georgia is the sole example of a qualified municipality in the state of Georgia who was afforded the permission of the Georgia State Legislature to levy a MOST for the purposes of dilapidated sewage infrastructure (City of Atlanta, 2012). Other municipalities around the state of Georgia would have to build coalitions consisting of key stakeholders in an effort to convince the state legislature of the severe need to levy such a sales tax (City of Atlanta, 2012). While coalition building is no easy task, allowing municipalities in the state of Georgia to levy a MOST will provide greater tax equity for residents of such municipalities (GMA, 2012).

Conclusion

Throughout the last several years, local governmental entities have been forced to give increased attention to their revenues and finances as citizens have relied upon enhanced amounts of public services while maintaining minimal tax rates (Gelfand et al., 2007). The City of

Statesboro, Georgia and other municipal and state governments have eventually become engaged in this crisis and are therefore forced to rely upon diversified methods of taxation such as ad valorum taxes or property taxes, sales or consumption taxes, excise taxes, and other types of fees in an effort to prevent severe budgetary shortages (Gelfand et al., 2007). Since the City of Statesboro is considering alternative revenue sources, principally a second sales tax, revenue sources readily available to the City of Statesboro to supplement the municipal ad valorum tax or property tax include the Local Option Sales Tax (LOST) or Municipal Option Sales Tax (MOST). Each of the aforementioned revenue sources are activated upon public referendum and are eligible for collection on the sale or use of all non-exempt goods and services within municipal limits (GMA, 2011). By allowing the City of Statesboro to levy an additional sales tax, the city could begin to allocate monies collected through such sales taxes for capital expenditures such as streets and roads, sewage and water, or other development projects (GMA, 2012). The need for capital improvements and alternative funding sources in the City of Statesboro and other local governmental entities around the American states is indicative of the commitment by American communities to provide efficient and effective services in the rapidly evolving twenty-first century.

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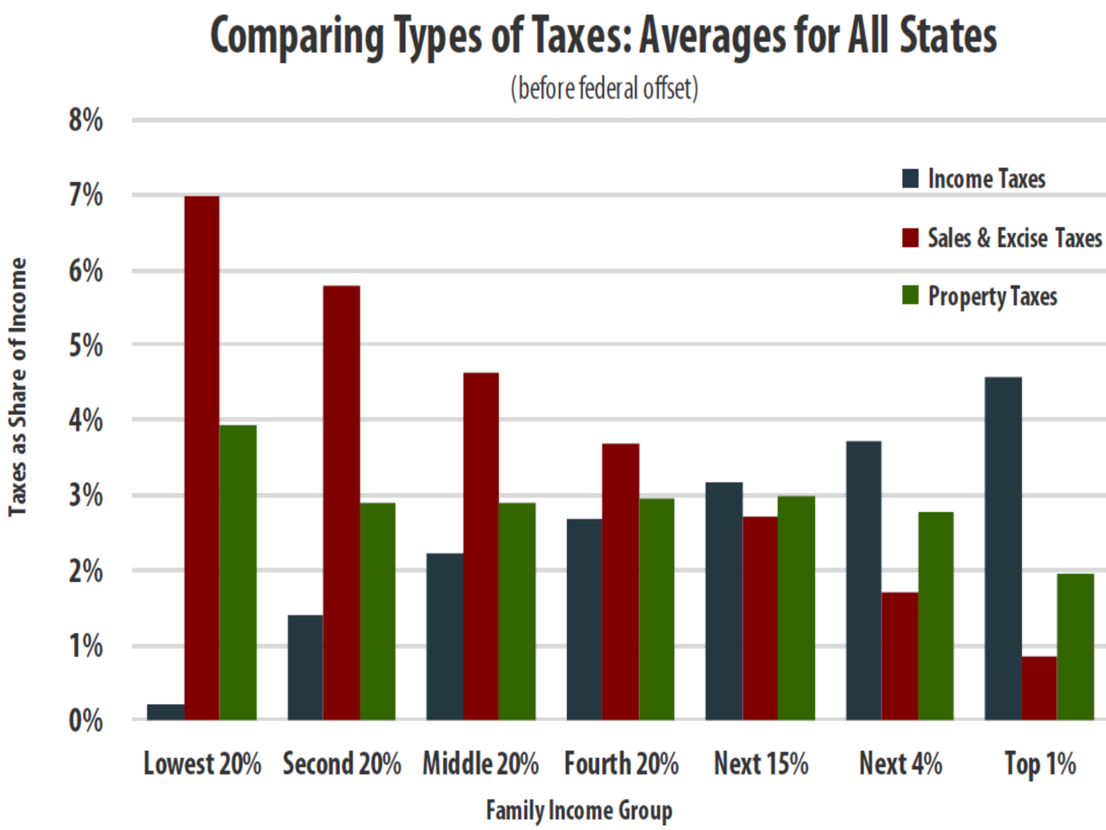
Appendix A:


Comparing Types of Taxes: Averages for All States
(before federal offset)
Taxes as Share of Income
8%
7%
6%
5%
4%
3%
2%
1%
0%
Income Taxes
Sales & Excise Taxes
Property Taxes
Lowest 20%
Second 20%
Middle 20%
Fourth 20%
Next 15%
Next 4%
Top 1%
Family Income Group

Appendix B: City of Statesboro and Bulloch County Intergovernmental Revenue Data 2003-2012

Year	Intergovernmental Revenue Amount
2003	$5,874,432
2004	$5,767,305
2005	$2,722,812
2006	$3,276,532
2007	$5,124,511
2008	$4,666,388
2009	$2,723,959
2010	$6,450,717
2011	$5,859,254
2012	$5,445,203

Appendix C: City of Statesboro Revenue Source Percentages