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What Is The Role Of Spending Controls?

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A common theme in recent Pennsylvania local tax reform initiatives has been an emphasis on spending controls as a way of keeping local taxes low, primarily through a "Backend Referendum" that gives voters the ability to approve or disapprove large tax increases. Such a referendum was a key component of Act 50 of 1998, Act 72 of 2004, and Special Session Act 1 of 2006. In addition, there has been some discussion in the General Assembly about spending caps that could not be exceeded, particularly for the Commonwealth budget

Part of Pennsylvanian's current interest in spending controls and greater taxpayer voice is that Pennsylvania voters historically have only had a 'voice' in local tax decisions during elections, when they decide between candidates for public office. Yet this voice during elections can be effective. There often is significant turnover in Pennsylvania local elections, driven by voter approval or disapproval over decisions that have been made, which sends clear messages to local officials. For example, in each election year since 1987, between 19 and 29 percent of county commissioners in Pennsylvania lost the primary or General election (overall turnover was between 35 and 49 percent of sitting county commissioners in Pennsylvania) *(data from County Commissioners Association of Pennsylvania, 2007).* Indeed, fear of being voted out of office can be an effective curb on raising tax rates.

Some state legislators have expressed interest in creating state spending caps, similar to what has been implemented in other states. If implemented, spending caps could have significant impacts upon Pennsylvania county governments since counties rely heavily upon state funding to help pay for programs mandated by the state. If a spending cap forced the state to reduce the money it allocates to counties to help pay for such mandated programs, and the state did not simultaneously reduce or eliminate those state mandates, counties would have no choice but to cut other local services or raise taxes. The result is that local taxpayers would bear the cost of a state spending cap. Colorado had a state spending cap, but repealed it after several years because of such difficulties and unfairnesses.

What is Often Missing from Spending Control Legislation

Backend referendum and spending controls can create greater taxpayer control over how much money is collected via local taxes, and thus help control local costs. But by themselves, they do not fully provide greater local control since they only focus on the revenue side of local government. Because backend referenda and spending caps don't address the spending side of local government, they do little to help local officials manage both sides of local budgets. This omission is significant because many local expenditures are not under the direct control of elected officials, including state and federal mandates about specific services that must be offered (e.g. entitlement services for abused or neglected children, mental health and mental retardation services), how services must be provided (e.g. bidding requirements, and prevailing wage requirements), and how employees are paid (e.g. pension expenses, collective bargaining agreements).

All of the recent tax reform acts focused solely on the revenue side, and gave school districts no additional tools to help control spending, or reduce the impact of state and federal mandates. Simply cutting the tax revenue those local jurisdictions can raise without providing tools to better manage spending means that budget cuts will affect locally determined priorities (discretionary programs). Local officials can control these discretionary programs, whereas programmatic spending mandated by state and federal law is driven by forces outside the local official's control. The practical result is a disproportionate effect on locally determined priorities, not state and federal priorities. Spending controls that don't address both tax revenue and spending thus can be interpreted as taking away the ability of local jurisdictions to set their own priorities.

Experience With Voter Referendum And Mandates

Even though Act 1 has only been in place for one budget year, and it only impacts school property taxes, there are useful lessons from its implementation about the role of mandates in all local jurisdictions' budgets and tax increases. Act 1 made all Pennsylvania school districts subject to a backend referendum, requiring voter approval for tax increases when they exceed an inflationary index. In 2007, 42 percent of all Pennsylvania school districts were exempted from the backend referendum by the Department of Education in compliance with exemptions provided in Act 1; the majority of these districts were exempted because of state and federal mandates, including pension obligations (188 school districts, 38 percent of all Pennsylvania school districts) and special education increases (144 districts, 29 percent of all districts). The relatively high percentage of districts who received an exemption suggests that without addressing state and federal mandates directly in local tax reform efforts, local controls over tax rate increases likely will either continue to be imperfect or will lead over time to mandates crowding out local discretionary services that residents want for their own community. Giving local jurisdictions greater flexibility in whether and how they respond to state and federal priorities, or else formally providing full reimbursement from state or federal funds to pay for such mandates, would help local jurisdictions better control local tax increases.

Local tax referenda are not necessarily a panacea for controlling local taxes, as evidenced by the mixed experience in other states. Indeed, dissatisfaction with tax referenda in Michigan was one significant reason that state reformed its local tax structure several years ago, since they found that some school districts were unable to get budgets passed, crippling the local schools. In addition, tax referendum fundamentally changes the relationship between voters and local officials, since it means those officials must spend significant energy on public relations activities and promoting proposed budgets, rather than focusing on administering their local government or school district.

For More Information

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