

# POLICY NOTES

## SPLOST Has Little Effect on Borrowing to Finance Capital Improvements but Does Lead to Increases in County Spending

*Changhoon Jung*

*SPLOST is neither a powerful alternative to long-term debt nor a property tax relief measure, but it does enhance revenue for local capital spending.*

*By 1997, only 10 counties had not passed a SPLOST referendum.*

*The lower the voter turnout rate, the higher the likelihood that a SPLOST referendum will pass.*

The need to finance infrastructure has challenged local governments across the country for decades. Investment in capital projects and maintenance of capital facilities is vital to a community's economic development and quality of life. Historically, federal and state inter-governmental grants and own-source revenues, including current revenues and long-term debt, have been the major mechanisms for financing local government capital outlays. However, with the taxpayer revolt of the 1970s and the associated decline in federal and state grants for capital purposes in the 1980s, local governments have struggled to fund their capital needs.

For more than two decades, Georgia has been one of the five fastest-growing states in the country. The growth has resulted in a significant increase in the need for roads, highways, bridges, courthouses, jails, landfills, libraries, and other capital facilities. In 1985, the Georgia General Assembly passed the Special County Sales Tax (HB 281), authorizing local governments to levy a 1 percent sales tax to finance capital projects—making Georgia one of the first states in the country to do so. The so-called special purpose local option sales tax (SPLOST) has become quite popular and over the last decade has become a major vehicle for financing local government capital projects in the state. Between 1985 and 1997, Georgia counties held 493 SPLOST referenda, with an 83 percent (411) pass rate, ranging from 60 percent in 1986 to 95 percent in 1995 (see Table overleaf).

In a recent study (Jung 2002b), data from the Georgia Secretary of State's Office and the Department of Community Affairs (1985–87) were used and a fixed-effects model and time-series design were employed to explore how counties have used SPLOST and why some counties adopted it more quickly than did others. The effect of SPLOST on the structure and level of long-term debt, property tax burdens, and capital and current operating spending were also examined.

Regarding adoption, a number of patterns emerged from a systematic review of SPLOST referenda records. Perhaps most important, the analysis shows that the percentage of affirmative votes in SPLOST referenda is inversely related to voter turnout—the lower the voter turnout rate, the higher the likelihood that a SPLOST referendum will pass. Rapidly growing urban counties tend to be early adopters (1985–88) of SPLOST, and counties that adopted SPLOST early tend to become more regular users over time. Counties with large commercial trade centers, university towns, or tourist attractions that are able to export part of their sales tax to nonresidents tend to use SPLOST earlier and more frequently than do rural counties that lack this potential. Rural counties may use SPLOST to shift part of the tax burden from property owners to consumers.

**Table.** Results of SPLOST Referenda in Georgia Counties, 1985–97

Year	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	Total
Pass (N)	26	25	36	19	30	27	30	42	39	42	39	29	27	411
Fail (N)	8	17	6	8	5	11	2	7	3	3	2	5	5	82
Total (N)	34	42	42	27	35	38	32	49	42	45	41	34	32	493
Percent pass	76	60	86	70	86	71	94	86	93	93	95	85	84	83

Source: Georgia Secretary of State, *Special Purpose Local Option Sales Tax Election Record, 1985–97*.

The analysis of the impact on long-term debt suggests that SPLOST is unlikely to affect how often and how much debt a county issues. Although statistically significant relationships were not clearly established, it appears that the use of SPLOST tends to slightly reduce both the likelihood that a county will issue general obligation debt and the amount of general obligation debt, while slightly increasing the issuance and amount of revenue debt. SPLOST use does not seem to reduce either the combined amount of general obligation and revenue debt or the likelihood that a county will issue both types of debt.

Contrary to what was expected, the study found that SPLOST does not reduce property tax burdens. Instead, two variables tend to increase: the per capita amount of property tax collected and the amount of property taxes expressed as a percentage of personal income. Moreover, although the use of SPLOST seems to slightly reduce property tax rates, rate reductions do not necessarily lead to actual reductions in the amount of property tax collected.

Not surprisingly, SPLOST has emerged as a powerful instrument for increasing the amount of capital spending in Georgia counties. The analysis shows that SPLOST-collecting counties spend an average of \$17.40 more on capital spending per capita than do non-SPLOST counties, and in SPLOST counties, capital expenditures as a share of total spending is 5.6 percent higher than in non-SPLOST counties.

In addition to increasing capital spending, SPLOST can trigger more spending on maintenance of capital equipment and facilities, as critics have argued. An extra dollar of SPLOST revenue results in a 50-cent increase in total spending: 38 cents in capital spending and 12 cents in current operating spending. On average, SPLOST counties spend \$2.80 more per capita on current operating spending than do non-SPLOST counties.

With the changes in fiscal federalism over the past two decades and the need for local governments to diversify their revenue bases, SPLOST seems to have emerged as a successful revenue diversification measure in Georgia. Although it does not appear to be a substitute for long-term borrowing or an instrument for reducing property tax burdens, there is strong evidence that it results in counties spending more on both capital and current operations.

*SPLOST is unlikely to affect how often and how much debt a county issues.*

*SPLOST does not reduce property tax burdens.*

*SPLOST can trigger more spending on maintenance of capital equipment and facilities.*

## Select Sources

Jung, Changhoon. 2002a. The effect of local earmarking on capital spending in Georgia counties. *State and Local Government Review* 34, no. 1 (winter): 29–37.

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