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Why Georgia Needs a Tax Reform

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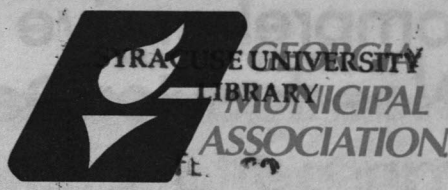
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GEORGIA'S CITIES



VOLUME 2 NUMBER 1 January 21, 1991

PERIODICAL DIVISION

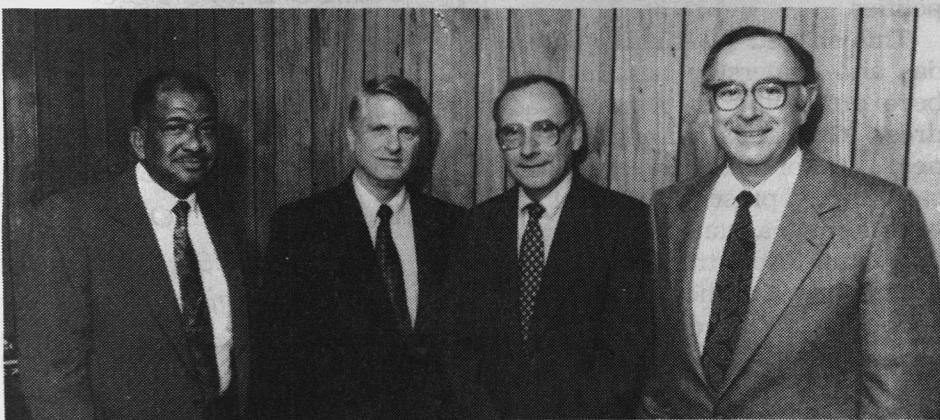
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Miller Reappoints Higdon Commissioner Of DCA



(Left to right): GMA President James Neal, Governor Zell Miller, DCA Commissioner Jim Higdon and GMA Executive Director James Burgess celebrate Higdon's renomination.

Governor Zell Miller reappointed Jim Higdon as Commissioner of the Georgia Department of Community Affairs (DCA) at a news conference at the State Capitol on January 4th. Attending the press conference were GMA President James Neal and GMA Executive Director Jim Burgess.

Executive Director Burgess commended the appointment, saying, "The GMA members have enjoyed a very close and productive working relationship with Commissioner Higdon. Under his leadership, DCA has evolved into a state agency for local government and the State Growth Policy is an outgrowth of this evolution. We certainly thank Governor Miller for his confidence in Commissioner Higdon and the support of local governments shown by making Commissioner Higdon a part of his administration."

With this appointment, Higdon will serve as a key leader in state government for a fourth Georgia governor. He began his career with the State under Governor Jimmy Carter, when he was appointed Director of the State Crime Commission in 1970. Higdon served in that role for ten years, until being appointed to his current position in

1980 by Governor George Busbee. Higdon was reappointed by Governor Joe Frank Harris to lead the agency during each of his two terms.

At the news conference announcing Higdon's reappointment, Governor Miller commended Higdon for his long-standing leadership as Commissioner and indicated that many local officials had strongly

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—Jim Burgess

endorsed his reappointment. Higdon thanked the Governor for the opportunity of working in the Miller administration.

A graduate of Greensboro High School and the University of Georgia, Higdon has received several noteworthy honors on the state, national and local levels during his career. In 1990, he was named one of the *Georgia Trend* 100, a listing of the state's 100 most influential

people by *Georgia Trend* magazine. The magazine quoted an insider as saying, "When the governor (Harris) has something he really wants done, he goes to Higdon." In both 1983 and 1990, Higdon was awarded the State Government Service Award by the Georgia Municipal Association. The national association, Keep America Beautiful, presented him the Government Official Leadership Award in 1985. The highest honor available in Greene County, the Native Son Award, was bestowed upon him in 1987 by the Greene County Chamber of Commerce.

As Commissioner of Community Affairs, Higdon administers a \$48 million budget with a staff of 120 persons. The Department strives to improve the quality of life for Georgians by improving the effectiveness of local governments through a variety of services. Offering programs such as the federal Community Development Block Grant Program, which assists communities in a wide range of activities benefiting low to moderate income persons, is just one way of achieving that goal. Since 1982, DCA has made approximately 1000 grants in excess of \$300 million to Georgia cities and counties.

Other responsibilities unique to the department are ensuring the successful implementation of Georgia's comprehensive planning process and acting as the Governor's key advisor on rural development. The Department offers other activities which include, but are not limited to, the Georgia Main Street Program, law enforcement and jail management activities, industrialized buildings, solid waste management, and coordination of the Governor's Annual Community Awards Banquet and the Georgia Music Hall of Fame Awards Ceremony, which combined serve approximately 5,000 persons statewide.

WHAT IN THE WORLD IS A QLGL, AND WHY SHOULD YOU CARE?

by Lynn Thornton
Director, Office of
Coordinated Planning,
Department of
Community Affairs

If you are a mayor, you recently received a letter from Jim Higdon, Commissioner of the Georgia Department of Community Affairs (DCA), notifying you about your city's "recertification" date and the action your city must take to maintain its status as a Qualified Local Government (QLG).

The Georgia Planning Act of 1989, which established

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Georgia's new, "bottom-up" planning program, also put in place a mechanism by which cities could be rewarded for participating in the planning program. The legislation said that each city in the state was designated as a Qualified Local Government, making it eligible for state grant and loan funds. In order to maintain its QLG certification and continue its eligibility for selected state grants and loans, each city must prepare and adopt a local comprehensive plan which meets the Minimum Planning Standards and Procedures mandated by the Georgia Planning Act. Each city must have its plan completed by the date identified in Commissioner Higdon's recent letter to the chief elected official of each jurisdiction in the state.

How to keep your "QLG" status

If 159 counties and close to 550 cities all attempt to complete plans just prior to the final recertification date in September,

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WHY GEORGIA NEEDS A TAX REFORM

Georgia needs more than a fix to this year's budget crisis. It needs a new, comprehensive look at the state's overall tax structure. The current crisis is only a reflection of a more fundamental problem.

The tax system is not in step with the modern Georgia economy. It was formulated long ago when Georgia, and most other states, were production and agriculture economies, and when consumer expenditures were primarily for commodities, when earnings were primarily wages

By Roy Bahl
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and salaries, and when the poor were a smaller fraction of society. Today's Georgia gets less than two-thirds of income from wages and salaries, consumption and production are heavily in the service sector, and there is a growing demand for the government to get more involved

in developing the state infrastructure and increase its efforts in the social services area.

The present tax system has been left in place too long, and various observers have charged it with being regressive, treating businesses differently and unfairly, not providing adequate revenue growth, and not being supportive of economic development.

The new setting almost forces states to consider tax reform in a comprehensive way. The federal

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government has substantially reduced its subsidy to state and local governments, so states are more on their own than ever before; we are entering a time of increased inter-state competition for business when each state will formulate its own industrial policy; and the business community is looking for stability and certainty in state economic policy. Many other states have begun to address these issues by undertaking major fiscal reform programs.

Under a comprehensive fiscal reform, the state would have many options to consider.

Georgia presently does not tax the service sector very heavily. The inclusion of services would make the system more progressive, yield enough revenue to buy rate reductions elsewhere, and provide a stronger base for revenue growth in the future.

The food question in sales taxation. Taxing food is regressive, but its exemption is not the only way and may not be the best way to make the tax system more equitable.

Taxing certain services under the sales tax. This would broaden the base significantly, and many states are successfully taxing services. Georgia presently does not tax the service sector very heavily. The inclusion of services would make the system more progressive, yield enough revenue to buy rate reductions elsewhere, and provide a stronger base for revenue growth in the future.

The taxation of the business sector might be reviewed. The company income tax is an unstable

	South	U. S.	Georgia
1. Taxes as a percent of personal income	10.5%	11.69%	10.6%
Property Tax	2.5%	3.5%	2.8%
Sales and Gross Receipts	3.1%	2.8%	3.1%
Individual & Corporate Income	2.2%	3.0%	3.2%
User Charges ^a	2.9%	2.5%	3.7%
2. Federal Assistance, per capita (1988)^b	\$3,451	\$3,597	\$2,909
Federal Grants	\$ 422	\$ 478	\$ 462
3. Percent of General Revenue from Federal Aid^c	17.1%	16.2%	17.2%
4. State Government Percentage of			
State and Local Government Taxes	66.3%	60.6%	61.1%
State and Local Government Expenditures	42.6%	39.9%	37.5%
5. Per Capita Expenditures	\$2,404	\$2,857	\$2,595
Elementary and Secondary Education	\$ 589	\$ 690	\$ 687
Higher Education	\$ 224	\$ 255	\$ 195
Highways	\$ 217	\$ 266	\$ 209
6. State and Local Government Employment			
Employment per 10,000 population ^d	\$ 507	\$ 505	\$ 562
Average Earnings	\$21,084	\$26,244	\$20,964

^aCurrent charges

^btotal federal spending less federal grants

^cpercent of total general revenue from federal grants

^dfull-time equivalence

Source:

U.S. Department of Commerce, Bureau of the Census, "Governmental Finance in 1988," U. S. Government Printing Office, Washington D. C. 1990.

U.S. Department of Commerce, Bureau of the Census, "Federal Expenditures by State in 1988," U.S. Government Printing Office, Washington, D.C. 1990.

U.S. Department of Commerce, Bureau of the Census, "Public Employment in 1988," U.S. Government Printing Office, Washington, D.C. 1990.

source of revenue and is levied only on those with profits. All firms in the state do benefit from state and local government services and it is at least worth asking the question of whether we are overburdening some businesses and giving others a tax preference that we do not intend.

The Legislature and the Governor need to initiate a comprehensive tax reform effort. It should cover the tax question and the issue of local government finance. The objective is to better inform the debate, so that legislators do not find themselves in a position of having to react

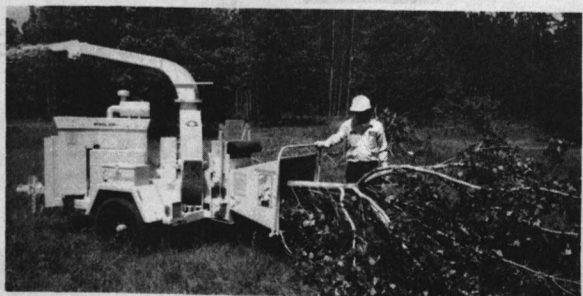
to "quick and dirty" proposals without the benefit of thorough background analysis. The State needs to ask what tax structure will best carry Georgia to the 21st century, and needs to put all options on the table for Executive, Legislative and public debate.

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