

Healthy cities need healthy funding sources

CHANGES

Douglas J. Enevoldsen: Work must begin now to get our cities, and in turn our state, healthy.

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Daily headlines have made most citizens painfully aware that many city governments in Oklahoma are financially ill. Poor sales tax revenues are crippling municipalities' ability to provide basic safety and quality of life services that citizens expect and, until recently, have taken for granted.

Oklahoma is the only state in the nation where cities and towns must rely on sales taxes as their primary revenue source for general governmental operations. No one would draw up such a system today if starting from scratch. Oklahoma state government, county governments, and school districts each have multiple significant revenue sources to draw upon to fund their operations.

The sales tax is an inherently unstable revenue source, reflecting volatile consumer sales activity. Moreover, the base on which it is applied is continually being eroded. Oklahoma now has 143 legislatively authorized sales tax exemptions, up from six in 1980. And ever-growing Internet sales are expected to cost Oklahoma state and local governments \$106 million in lost sales tax revenues this year.

State government has steadily increased its own reliance upon the sales tax, hiking the state rate from 2 cents in 1982 to 4 1/2 cents today. A number of counties and school districts have also augmented their property tax revenue base with sales taxes.

These actions have gradually crowded out municipalities' ability to adjust sales tax rates for local operating needs. Typically, cities and towns only have been able to raise their local rates when the proceeds were earmarked for special purposes.

In many Oklahoma cities and towns, the costs for public safety services alone exceed annual general fund revenues generated from sales taxes. Cities must scramble to fund remaining governmental functions such as streets, parks and vital support services. Most routinely find it necessary to tap utility revenues to balance their budgets, a practice that takes dollars away from utility system maintenance and places upward pressure on utility rates.

To bring this critical issue to the forefront, city officials from this area have joined forces with our colleagues statewide to begin a "Healthy Cities — Healthy Oklahoma" initiative.

Cities and towns are the backbone of Oklahoma's economy. Virtually all commerce, education, health care, state and many county government services take place inside a city or town. Those institutions cannot fully achieve their own respective missions if their host cities are not healthy, functioning entities.

Because they are so reliant on sales taxes, most cities and towns focus the bulk of their efforts on attracting retail sales instead of industries that feature higher-paying jobs. This is understandable, because the latter pursuits increase demands on municipal services without providing commensurate

operating revenues. However, this ultimately results in a less diversified, less prosperous Oklahoma economy.

Pursuit of retail also pits communities against one another because there is only so much of the retail pie to go around — often helping one at the expense of another.

The "Healthy Cities" initiative is seeking simple, modest help in the coming legislative session. It is asking lawmakers to "stop the bleeding" by first measuring the fiscal impact of proposed laws on cities and towns before adopting them. Unfunded mandates can be very harmful to financially strapped local governments. And, it is asking for limitations on future sales tax exemptions.

The next step will be to study municipal funding solutions in-depth prior to the 2011 legislative session. The answer likely will involve allowing local governments access to a more diversified mix of revenues, including the more stable ad valorem type on a local-option basis, to suit local circumstances and voter preferences, possibly dedicated for public safety.

City officials recognize that the current municipal finance structure was not formed overnight, and it realistically will take some years to reform it. The funding situation in many Oklahoma cities and towns is in critical condition, and work must begin now to get our cities, and in turn our state, healthy.

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