

Meeting Local Needs with a Unique Revenue Source: A Case Study of Voluntary Property Taxes in Faulkner County, Arkansas

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This research explores a unique revenue source in Arkansas: the voluntary property tax (VPT). VPTs support specific public services such as animal shelters, emergency services, and cemeteries, among others. When county residents receive their property tax bills, citizens can choose which voluntary taxes, if any, they would like to pay. This study explores the revenue and accountability implications of programs funded by the VPT in Faulkner County, Arkansas. Understanding this type of revenue source is important and relevant at a time when local governments are under fiscal pressure to provide a wide range of services to citizens.

Introduction

Since 2014, the Conway, Arkansas city animal shelter remodeled its surgery room and cat room, installed kennel fencing, and purchased vehicles for the animal control enforcement officers. These service and facility enhancements were paid for, not with existing general revenue from the city, but from a unique revenue source – a voluntary property tax (VPT) earmarked for a specific public service. Unlike the property tax levied for general government services, citizens can choose which VPTs, if any, they would like to pay, and in some cases, how much they want to pay. In use since the 1960's when a VPT was created by the state legislature, 33 of 75 counties in Arkansas levied one or more voluntary taxes in recent years (Hoffman and Howard, 2017).

Local government finance is an increasingly complex challenge as many cities and counties assume greater responsibility for financing public services amidst both external and internal pressures on revenue. Reductions in intergovernmental aid, constraints added to state constitutions and statutes on the ability to raise revenue and the economic downturns of the

Great Recession and the current pandemic create external pressure. Internal pressure arises from citizen demand for high quality local government services alongside citizen discontent over increasing taxes. These challenges have been the subject of many articles and essays in recent years by local government scholars (Ammons et al., 2012; Benton et al., 2008; Chapman, 2008; Greenblatt, 2010; Martin et al., 2012; Warner, 2010). Benton et al. (2008) argue that the ability of local governments to meet these challenges depends upon the “decision making latitude granted by state constitutions and statutes to restructure and modernize their governments and to expand revenue raising capacity” (p. 65).

Against this backdrop, Arkansas’ voluntary property tax is an intriguing revenue generation mechanism that harnesses citizens’ willingness and preference to pay additional taxes to support services that they want or deem to be important. An earlier study by Hoffman and Howard (2017) identified the number of VPTs in Arkansas counties and cities as well as the programs and services funded by the VPT. In Arkansas, this VPT revenue is used to support public services and programs such as animal shelters, emergency services, public recreation and playgrounds, museums, cemeteries, and early warning sirens. But for state and local governments seeking innovative revenue sources, a measured evaluation of the VPT mechanism’s impact, sustainability and accountability is needed. Using a case study method to examine county and city-operated programs funded by the VPT in Faulkner County, Arkansas, this study summarizes previous research on the use and prevalence of voluntary property taxes in Arkansas, assesses the stability and adequacy of the VPT as a revenue source for specific county and city programs, and describes accountability issues and challenges that may arise in those programs funded by the tax. This analysis provides important implications for other states who may consider the creation of a local VPT option.

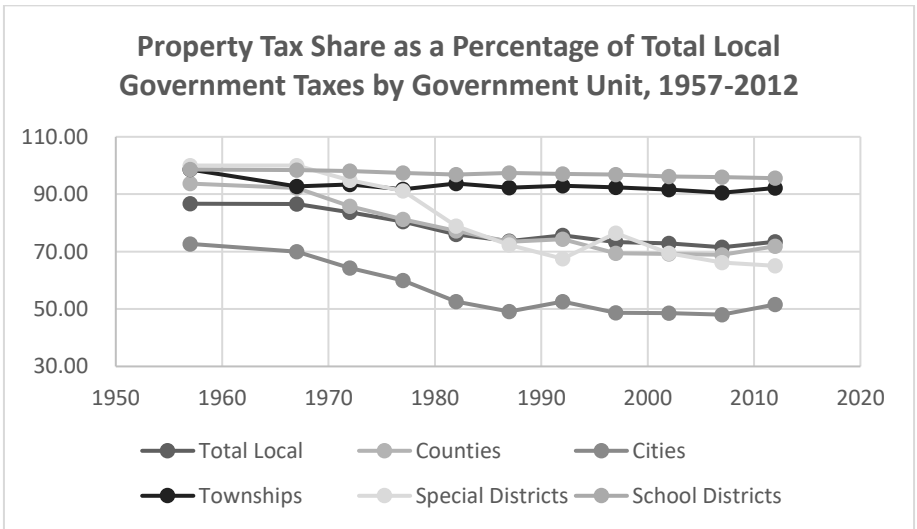
The Local Property Tax

Historically, the property tax has been the primary means in which local governments have responded to citizen demand for services. The local property tax offers several advantages not seen with other major taxes such as sales and income. First, the property tax does not decline dramatically during economic downturns and therefore is more stable than the sales tax or income tax. Second, the services supported by the property tax provide direct benefit to citizens paying the tax and contribute to making property values higher (fire and police protection, streets and sidewalks, and good quality public schools for example) (Mikesell, 2007). Third, the tax on real

property is difficult to evade. Fourth, it allows local governments to achieve autonomy from state and federal control (Bland, 2005).

Despite these advantages, the property tax is one of the most hated by citizens. Citizens surveyed in 2009 by the Tax Foundation ranked the property tax as one of the most unfair state and local taxes. On a scale of one to five the property tax received an unfairness score of 3.6, second only to the gas tax (3.7). State income taxes, motor vehicle taxes, cigarette, beer, and wine taxes all have lower unfairness ratings (Moon, 2009). Likewise, the same poll found that 55% of citizens described the property tax as “not fair” or “not fair at all” (Moon, 2009). Further, attempts to curtail the property tax are the most successful of state and local tax limitation efforts (Henchman, 2012). Common sources of citizen discontent include financial burdens for those, such as elderly residents, who are property rich and cash poor; lump sum payments and “sticker shock”; anxiety about reappraisal and the fear of higher taxes; and inequitable appraisals (Bland, 2005).

Figure 1: Property Tax Share as a Percentage of Total Local Government Taxes by Government Unit, 1957-2012



Source: US Census Bureau, Annual Survey of State and Local Government Finances, Table 2-Local Government Finances by Type of Government.

While still a significant source of revenue for most counties and cities, the share of local property tax as a percent of general revenue has declined while the share of other revenues such as sales taxes, user fees and charges, and miscellaneous sources have generally increased (Bartle et al., 2003; Benton et al., 2008; Chapman, 2008; Urban Institute, 2016). Figure 1 shows that in 1957, counties generated more than 90% of revenue from local property taxes, a share that fell below 80% by 2012. The share for cities dropped from more than 70% to near 50% over the same time period. Figure 1 also indicates that in the late 2000s, the property tax increases as a percent of local government taxes for cities and counties. However, this increase does not negate the decline in the property tax for cities and counties since the late 1950s.

There are several explanations for the decline in the importance of the property tax. First, citizen tax revolts have targeted the property tax over the past several decades. In 1978, Proposition 13 in California dramatically reduced property tax revenues by rolling back and freezing values as well as limiting property tax increases. California's property tax revolt led the way for a flurry of tax limits immediately after the passage of Proposition 13, followed by another period of enactments in the 1990s (Waisanen, 2010). Second, the Baby Boomer generation in the 1950s and 1960s led to an unprecedented increase in children and the need for more public schools, teachers, and school infrastructure. Local governments had to resort to other revenues (sales and income taxes) in order to relieve citizens of huge property tax liabilities (Bartle et al., 2003). Local governments also compete with one another to attract residents and on the economic development stage to attract businesses (Tiebout, 1956). Many of the tools used to lure businesses reduce property tax revenues through tax abatements and other incentive policies. Taken together, tax revolts, demographic challenges, and competition for jobs and economic development have contributed to the erosion of property tax revenues for many cities and counties across the nation. Despite this erosion, the property tax remains an important source of revenue for cities and counties.

Voluntary Property Tax in Arkansas

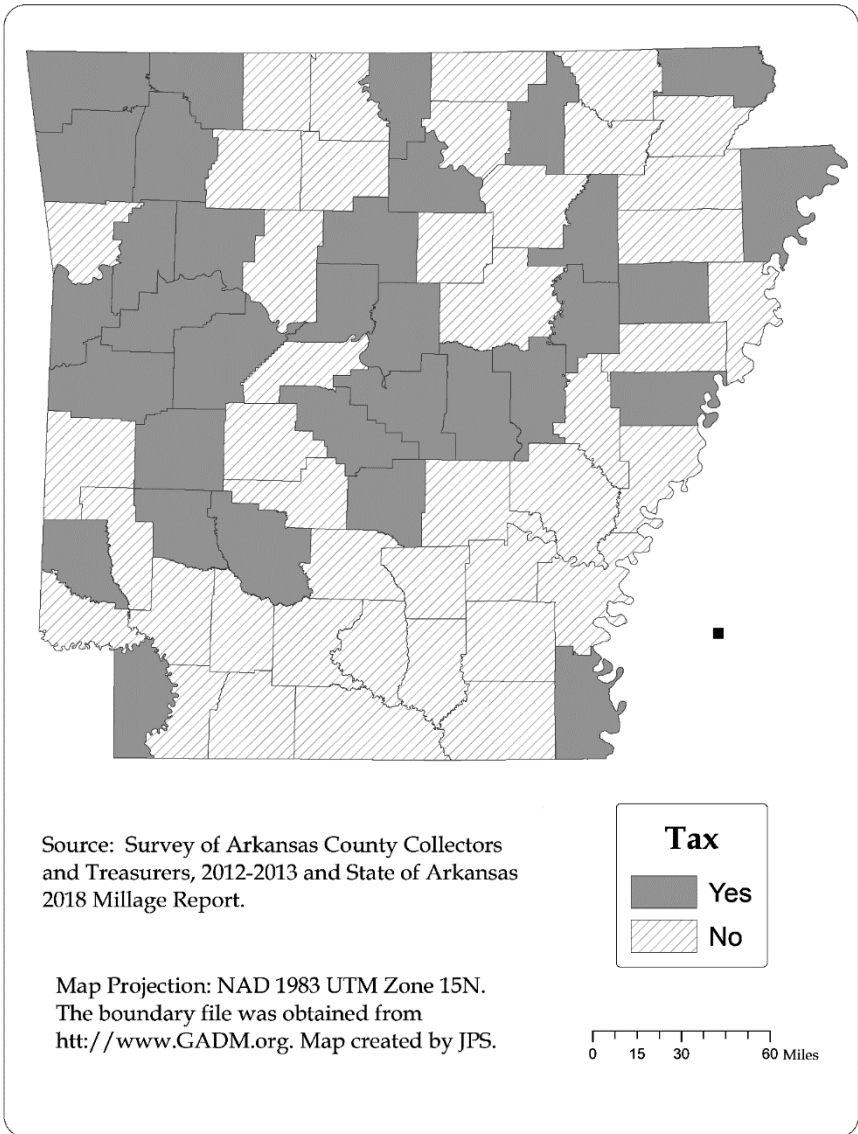
In Arkansas, the property tax is a local tax that is levied, collected, and administered by county government. The voluntary property tax supports specific public services benefitting the residents in a county or city. Unlike mandatory property taxes paid by all citizens who own property, VPTs are indeed voluntary. Citizens choose to pay an additional property tax for public services provided by city or county government or other organizations in the community. For some counties and cities in Arkansas,

the VPT provides a financial boost for public services such as cemetery maintenance, animal shelters, emergency services, conservation districts, museums, weather warning sirens, and historic commissions.

State statute allows Arkansas counties and cities to levy a VPT if the tax is used for a public entity, for a public service, and for the general public (ACA 26-25-106). Arkansas statute identifies an extensive list of public services for which the property tax can be used: fairs and livestock shows; economic development services; drainage, irrigation, and flood control; animal control; libraries; museums; civic center auditoriums; historical, cultural, or natural site services; fire prevention and protection; child care, youth, and senior citizens services; public health and hospitals; social and rehabilitative services; and solid waste and recycling services (ACA 14-14-802). The use of the VPT in Arkansas goes back to at least the early 1960s. Although the specific legislative motivation for the creation of the tax cannot definitively be known, it appears that the Arkansas legislature believed that local governments should have this additional revenue raising ability. Other states interested in a voluntary tax would likely need enabling legislation to create a similar opportunity for local governments in their states.

A VPT can be levied by a county or city, with the county responsible for collecting the tax and remitting it back to the city. If the city levies a voluntary tax, it must inform the county of the new tax and each year must notify the county through an annual resolution identifying the voluntary levy and the millage rate (property tax rate). The voluntary tax can be placed on real property and/or personal property. In Arkansas, property taxes are classified as real or personal. Real property includes real estate, such as land, residential homes, and commercial buildings. Personal property includes vehicles, boats, trailers, and farm equipment, among others. A VPT is created when interested parties present their idea and rationale for the voluntary tax to a city council or quorum court (the county governing body in Arkansas). The appropriate governing body in a city or county authorizes the tax and millage rate through a city or county ordinance. The tax is then placed on the property tax bill for the covered residents. Unlike mandatory property taxes, voluntary taxes do not always need citizen approval to be put into use. If the tax will be used for a county-operated program, the county quorum court decides whether to levy the tax. If the tax will be used for a city-operated program, the proposed tax is put to a vote of the citizens.

Figure 2: Map of VPT Usage in Arkansas Counties



When residents receive their property tax bill, they have an option to pay the amount of their property tax with or without the voluntary tax. In counties with multiple voluntary taxes, residents have the ability to decide which voluntary tax, if any, they would like to pay. In at least one county

(Faulkner), residents can choose to pay the stated millage rate or choose to pay what they would like for the particular tax (Latimer, 2009).

The VPT appears to be unique to Arkansas. Of the 75 counties in Arkansas, 33 counties levy one or more voluntary taxes. As shown in Figure 2, these taxes are found across the state except for the southern part of Arkansas. Those counties that employ a voluntary tax are spread across the rest of the state and vary from the second smallest county, Woodruff County with little over 7,000 residents, to the largest county, Pulaski County with over 390,000 residents. Moreover, at a time when citizens often resist tax increases, at least three Arkansas counties have recently enacted one or more VPTs to pay for needed services. A tax was established to fund animal control in Saline County (2014) and Pulaski County (2016), EMS/ambulance services in Benton County (2014), and to support the county detention center in Saline County (2018).

VPTs in Arkansas are used for soil conservation, recycling programs, volunteer fire protection, animal welfare, weather warning systems, historic preservation, and other purposes. For the county voluntary taxes, soil conservation is by far the most common with 18 counties using a voluntary tax for this purpose. The most common use of a city voluntary tax is for a city volunteer fire department in nine cities. In addition to the variety of purposes, the millage rate set for each of these taxes varies from 0.2 to 5 mils or in some cases a set dollar amount (Hoffman and Howard, 2017).

The Elements of a Good Revenue System and Accountability

Existing literature suggests several basic goals or principles that governments should pursue when designing a sound revenue policy. While there are many standards for what constitutes a high quality revenue policy in the literature (Bland, 1997; Brunori, 1997; Cline and Shannon, 1983; International City/County Management Association [ICMA], 1996; Mikesell, 2007; National Conference of State Legislatures [NCSL], 2007), this research evaluates the VPT in Arkansas based on four standards of sound revenue policy that appear consistently in the literature: citizen acceptability, stability, sufficiency, and cost efficiency. Alongside these basic principles, this article also evaluates VPTs on the basis of a fifth factor that has long been a concern of good governance – accountability.

Standards of a Sound Revenue Policy

First, citizen acceptability encompasses several concepts including whether revenues reflect the preferences of a majority of citizens in the community, fairness, and understandability. Bland (1997) states that “a politically acceptable revenue policy reflects the political environment of the community - and changes with it” (p. 16). Local government officials must periodically assess the political environment and design a revenue system that meets the wants and needs of citizens. Fairness is another aspect of citizen acceptability whereby citizens are more likely to accept a tax or non-tax source if it is perceived that the burden is distributed fairly among citizens. Fairness, of course, can mean many things to different people. Fairness can be based on the benefits-received principle where those who benefit from or use the service actually pay the tax or charge. For example, citizens perceive such revenue sources as fair because only those who use the service pay the charge. Fairness may also be based on one’s ability to pay, whereby citizens with greater income bear the higher tax burden. Understandability is another component of citizen acceptability and encompasses the idea that citizens have some knowledge of what their taxes are paying for and how they are calculated.

The second common standard is stability. Revenues should provide a stable source of funds at a sufficient level of funding for services. NCSL (2007) states that to meet revenue needs, a tax system must have stability, certainty, and sufficiency. As stated above, the property tax is considered one of the most stable revenue sources. Unlike sales and income taxes and some non-tax revenues, property tax revenues fluctuate less during changes in the local and national economies. However, the very nature of the voluntary property tax will likely make it less stable as a revenue source. In fact, previous research lends some support for this assumption. Hoffman and Howard (2017) analyzed six programs funded by the VPT over a five-year period and found that VPT revenues fluctuated from year to year in four of those six programs more so than general property tax receipts for the same time period. Also, for four of the six programs studied, the VPT declined each year during the time period under review. Several local and statewide newspaper articles on voluntary taxes in Arkansas reveal that once created, revenue projection is difficult (Latimer, 2009; Short, 2012; Boozer, 2013). County treasurers are challenged to determine how many taxpayers will contribute initially with participation rates likely to vary from year to year. For example, a voluntary tax in Jackson County, Arkansas saw a significant decline in revenues from 2010 to 2011 (Newport Independent,

2012). While the general property tax is quite stable, the voluntary version may have stability issues.

Third, revenues should be sufficient and should grow adequately enough to cover expenditures (ICMA, 1996). Sufficiency can also mean reducing dependency on a single revenue source or reducing dependency on funds from another level of government. NCSL (2007) states that a “high quality revenue system relies on a diverse and balanced range of revenues” (p. 3). In a previous study, several programs in Arkansas funded by the VPT rely significantly on the tax as a source of funding (Hoffman and Howard, 2017). Without this tax, the programs and the benefits each provide might not exist for citizens. The potential instability of the tax coupled with the essential nature of these programs is likely to make program budgeting and planning difficult for the program administrators.

Cost efficiency is the final standard. Brunori (1997) states that “the administrative requirements of sound tax policy revolve around minimizing the costs of compliance for taxpayers and of collection for the government” (p. 53). This study assesses the county administrative costs to levy, collect, and remit the voluntary property. Previous studies and newspaper articles found that some counties in Arkansas charge an administrative fee (Hoffman and Howard, 2017) and at least one county in Arkansas spent over \$50,000 in computer software changes to implement the VPT (Pettit, 2017).

Standards of accountability

In recent years, accountability has become a cornerstone of understanding government and organizations at all levels from international to local and from public to nonprofit organizations (see Bovens et al., 2014 for a comprehensive overview of accountability). Given its central place in good governance, accountability has a long history of particular importance to scholars of public administration (Considine, 2002; Finer, 1941; Friedrich, 1940; Koppell, 2005; Roberts, 2002; Peters, 2014; Schillemans, 2011). Peters (2014) contends that administrative accountability is both an external and internal process that is “an increasingly complex and difficult concept for public administration, and also becomes more difficult to ensure” (p. 212). Part of this difficulty of accountability is due to lack of a clearly accepted definition of this concept.

In his important work on accountability, Koppell (2005) provides a five dimensional framework of accountability to allow for more clarity in analyzing accountability and organizational effectiveness. He describes five distinct dimensions of accountability as transparency, liability, controllability, responsibility, and responsiveness. In previous research, Hoffman and Howard (2017) noted issues surrounding the accountability of the VPT particularly regarding the dimensions of controllability and responsibility. Controllability speaks to the classic principal-agent relationship - do elected officials have the ability to control programs and their administrators? The responsibility dimension is concerned with how well the organization follows rules such as legal requirements. Table 1 provides a brief definition of each factor.

Table 1: Standards of a Good Revenue System and Accountability

Standard	Definition	Citation
Citizen Acceptability	system of revenues reflects: <ul style="list-style-type: none"> • preferences of a majority of citizens • fairness • understandability 	Bland (1997)
Stability	source of funds for services is consistent	NCSL (2007)
Sufficiency	funds are adequate and grow alongside expenditures, not dependent on a single revenue source or other level of government	ICMA (1996) NCSL (2007)
Cost Efficiency	minimizes costs for taxpayers and governmental collection	Brunori (1997)
Accountability	maintains clear principal-agent relationship; supports following formal and informal rules	Koppell (2005)

Data and Method

This research utilizes a case study method based on a purposeful sample of VPT receiving programs in one illustrative county. Faulkner County, the fifth largest county in the state with a 2015 population of 119,343, was chosen for this case study because it is one of the counties with the greatest number of approved voluntary taxes, represents some of the oldest and newest VPTs approved in the state and allows study of both county- and city-operated programs.¹

¹ There are nine VPTs in Faulkner County. This includes four county-wide VPTs (Faulkner County Museum, Faulkner County Emergency Squad, Faulkner County Animal Control, and Faulkner County Soil Conservation) and five city VPTs (City of Conway Animal Shelter, City of Conway Parks and

This study focused on five of the nine VPT funded programs in Faulkner County (county museum, county emergency services, city animal shelter, city parks and recreation, and city cemeteries). The five programs were chosen because the VPT represents a significant source of program funding and where sufficient information and data were available. Additionally, the Faulkner County Animal Control facility has not yet been constructed and no VPT funds have been expended for that purpose. The soil conservation program, administered by the Faulkner County Conservation District, had its VPT reallocated to the Faulkner County Extension Service in 2018 by the Faulkner County Quorum Court. In 2019, The quorum court subsequently revived the VPT for soil conservation for the 2020 tax year (Faulkner County Reports, 2020). Therefore, the VPT was not in effect for Soil Conservation during our study period. We were not able to conduct interviews or collect data from the City of Vilonia Fire Department and City of Mayflower Cemetery.

Data for this study come from personal interviews with the Faulkner County treasurer, the Faulkner County administrator, and the City of Conway financial director. In addition, this study interviewed the county and city program administrators from the following programs: Faulkner County Museum, City of Conway Robinson Cemetery, and City of Conway Animal Control. The personal interviews were conducted in person in spring and summer of 2018. This study also reviewed county and city ordinances and resolutions creating and re-authorizing VPTs. Finally, revenue collection data was also obtained for each VPT.

This data was then used to evaluate whether the examples of VPTs found within Faulkner County meet the five criteria of a good revenue system found in the literature. Interviews with the county treasurer, county administrator, and city financial director yielded data on the overall stability and adequacy of the voluntary tax, information on collection and remittance, as well as identifying how some of the programs use the funds. Interviews with the program administrators provided more specific information about the use of the funds, their adequacy for the program, and challenges associated with the funding source. The county and city ordinances provided an understanding of the justification for the voluntary tax and the

Recreation, City of Conway cemeteries, City of Vilonia Fire Department, and City of Mayflower cemetery). The city and county VPTs are used to support programs and services deemed important to the citizenry in the respective jurisdictions.

service that it funds. The ordinances further identified any county/city monitoring or evaluation activities associated with the programs funded by the voluntary tax. The revenue collection data was used to determine the stability and sufficiency of the VPTs.

Table 2: Description of Programs Funded by the VPT

Program	Year of VPT Creation	2020 Program Budget	VPT Revenue as % of Total Program Budget	Full-Time Employees	Projects Funded
Faulkner County Museum	2001	\$77,643	95%	1	Support and operation of museum
Faulkner County Emergency Squad	1978	\$136,951	71%	Volunteers only	Purchase of wetsuits, defibrillators, radios, various equipment for rescue dogs and rescue teams
City of Conway-Animal Shelter	1966	\$496,164	VPT used for special projects only	8	Surgery room remodel, installation of kennel fencing, vehicle purchase, replacement of air conditioners
City of Conway-Parks and Recreation	1964	\$3,213,590	VPT used for special projects only	34	Construction of maintenance shop at a multi-use indoor/outdoor sports complex
City Cemeteries*	1970s**	N/A	N/A	0	Cemetery care and maintenance

Source: Budget/Employment Data from City of Conway Annual Operating Budget, 2020 and Faulkner County Annual Operating Budget, 2020; Projects Funded from interviews.

* City cemeteries are not maintained by the City of Conway, therefore, no budget data was available.

** VPT for city cemeteries in existence at least since the 1970s.

Programs Funded by the VPT

This study focuses on the following programs funded by the VPT: County Museum, County emergency squad, Conway animal shelter, Conway parks and recreation, and Conway cemeteries. Table 2 provides a description of the programs funded by the VPT used in this study. The

programs funded by the voluntary tax in Faulkner County include vital public services such as emergency and fire services, cultural and recreational services such as the county museum and city parks and recreation, and other important services to citizens such as animal shelters and cemeteries. Although the revenue received from the VPT makes up a small portion of total property tax revenue for both the county and city administered programs in Faulkner County, the VPT is a significant portion of revenues for several of the programs described in this study. For each of the five programs administered by either the county or city, the voluntary tax collections range from 0.2% to 0.8% of total property tax revenue collected (Arkansas Legislative Audit, Reports 2017). For comparison, voluntary tax revenue as a percent of total property tax revenue for three counties (Benton, Pulaski, and Saline counties) with at least one voluntary tax and with similar economies and demographics as Faulkner County shows variation, but generally indicates that voluntary tax collections are a very small percentage of overall property tax collections. Among these four counties (Faulkner, Benton, Pulaski, and Saline), 14 programs are funded with the voluntary tax. Voluntary tax collections as a percent of total property tax collections range from a high of 16.2%, a low of 0.1% with a mean of 2.5% (Arkansas Legislative Audit Reports, 2017).

Results and Discussion

In an effort to assess whether the voluntary property tax meets key criteria for a good revenue source, this study reviewed the VPT against five factors: citizen acceptability, stability, sufficiency, cost efficiency and accountability. A summary of results is presented in Table 3, followed by discussion for each criteria in turn.

Table 3: Evaluating the VPT on Five Criteria

Standard	VPT Performance
Citizen Acceptability	Mixed
Stability	No
Sufficiency	No
Cost Efficiency	Yes
Accountability	Yes

Citizen Acceptability

Citizen acceptability encompasses three components: 1) reflecting citizen preferences, 2) fairness, and 3) understandability. Collection rates for the county-administered programs are very low, indicating that few citizens pay the voluntary taxes for the county-operated programs. Table 4 shows that of the four county-administered programs, the emergency squad has the highest collection rates over the four-year period, with the county museum and soil and water conservation having the lowest collection rates.

Table 4: Collection Rates for County-wide Programs Funded by the VPT

Year Taxes Paid	Emergency Squad	County Museum	County Animal Shelter	Soil and Water Conservation*
2018	4.06%	3.13%	3.47%	3.10%
2017	4.55%	3.13%	3.37%	3.08%
2016	5.81%	4.61%	4.98%	4.61%
2015	5.92%	4.77%	5.13%	4.77%

Source: Faulkner County Treasurer, March 2019.

*After 2018, the VPT is allocated to the Faulkner County Extension Service.

Interestingly, collection rates for all four programs declined from 2015-2018. Of the four programs, citizens appear to judge the emergency squad as the most important service, therefore, more citizens are willing to pay the tax for a valuable service. It should also be noted that during the 2015-2018 time period, the creation of the county animal shelter received significant press coverage in the local newspaper. In this case, the county had been collecting the VPT for the creation of a county animal shelter for several years. The shelter has yet to be built. News coverage highlighted citizen frustration with paying a tax and not seeing results. Citizens, therefore, could be making conscious decisions to either support an essential service (emergency squad) or withhold the tax for a project that they feel is not meeting their needs (animal shelter). The preliminary data seem to indicate citizen preference for different programs. An interviewee stated, "people are going to tell you what they want...[the VPT] gauges what citizens want." Although not part of the scope of this study, a citizen survey could be useful in determining if citizens are indeed making conscious decisions to support some VPT-funded programs over others.

As stated above, fairness can be based on the benefits-received principle where those who benefit from or use the service actually pay the tax or charge. For example, a citizen of Conway may choose to support the

voluntary tax for parks and recreation because their children use the softball fields or the playgrounds. Someone who does not use these facilities may be less likely to pay the voluntary tax. Understanding the motivations behind the participation rates should be the focus of a future research project.

Regarding understandability, citizens may be more likely to pay a VPT if they are informed of the purpose of the tax. This implies that government entities must appropriately advertise or communicate the purpose of the tax and how the tax revenue is used. Interviews indicate that, currently, there is no centralized or uniform advertising done by the Faulkner county government. Advertising the VPT is the responsibility of the individual programs. At one time, a tax bill insert was placed in the property tax bill by the county, but that practice has ceased and there is no data indicating whether the tax insert led to increased VPT revenue. Program directors interviewed mentioned several types of advertising they have used for their program such as sending postcards to citizens separate from the tax bill, posting information on a Facebook page, and sending letters to citizens explaining the purpose of the VPT. For example, the Faulkner County Emergency Squad uses its Facebook page to advertise the tax, describe the services that the squad provides the citizens, and appeals to taxpayers to pay the tax (Faulkner County Emergency Squad, 2018).

To summarize from the preceding discussion, the performance of the VPT as used in Faulkner County on the criteria of citizen acceptability is mixed.

Stability

As discussed earlier, revenues should provide a stable source of funds. Previous research finds that the VPT is a volatile tax (Hoffman and Howard, 2017). Due to the unpredictable nature of the VPT, the study further explored how the county treasurer and city finance director deal with this volatility regarding revenue projections and how program administrators deal with this volatility regarding program budgeting and planning. According to the county treasurer, a more conservative approach to revenue projections is used for the voluntary tax than for other county taxes. For example, when forecasting revenues for taxes other than the voluntary tax, the treasurer projects at 98% of the previous year's collections. For the voluntary tax, the treasurer projects at 94% and also reviews the percentage of taxpayers who pay the tax from previous years. The city

finance director reports a similar conservative approach by reviewing collections from a three to five year period and generally using the same figure as the previous year.

Table 5 shows that during the 2015-2018 time period, collections fell each year for all four county-operated programs and the two city-operated programs, indicating that this particular revenue source is not stable. An interviewee stated that the VPT is, “very problematic both for projections, [for the county] treasurer and for the program itself...” This research interviewed program directors from both county-administered programs and city-administered programs to better understand how they use these revenues and how they budget for future operations.

Table 5: Revenue Collections for Programs Funded by the VPT

Year Taxes Paid	Emergency Squad	County Museum	County Animal Shelter	Soil and Water Conservation*	City Animal Shelter	Parks & Recreation
2018	\$77,109	\$59,367	\$98,917	\$58,817	\$10,839	\$18,424
2017	\$84,650	\$58,253	\$94,127	\$57,202	\$12,381	\$18,097
2016	\$106,877	\$84,867	\$137,374	\$84,867	\$14,854	\$25,889
2015	\$106,197	\$85,632	\$138,029	\$85,555	\$13,340	\$23,863

Source: Faulkner County Treasurer, March 2019 and City of Conway Annual Budget Document, 2020,2019,2018,2017.

*After 2018, VPT revenues will be allocated to the Faulkner County Extension Service.

Comments from the program administrators indicate two different approaches for the use of the VPT and these approaches impact program budgeting in different ways. For several of the county-administered programs, voluntary tax revenue is used for operating expenses. For the county museum, the tax funds 100% of the operating expenses which includes one salaried position. The volatility of the tax naturally makes budgeting for this program challenging. A program administrator stated that the VPT is, “not stable, not predictable, no way to predict [revenues].” This program administrator explained that it is impossible to plan for growth or to hire additional staff. Likewise, another county-administered program which relies almost exclusively on tax proceeds, the emergency squad, uses the tax for essential activities such as rescue equipment, dive training, and water rescue training. There are no operational costs for the emergency squad as the squad members are volunteers. The essential activities, equipment and training, would likely not occur or be purchased if not for the VPT. For programs where the VPTs are not the sole funding source, budgeting is also difficult. For example, a program administrator from one of the city cemeteries funded by the tax, comments that when the tax

revenue is less than expected or when unexpected expenses occur, “We have to prioritize the projects. We can put off some projects and reprioritize when necessary.” This individual also stated that the cemetery is trying to build a reserve, but attempting to do so is difficult.

The other approach to using voluntary tax revenues is to use the funds for non-operating expenses. Several city-administered programs use the tax revenues for non-operating projects. The city animal shelter uses the tax for projects such as replacement fencing around the shelter. In this case, budgeting for the program administrator is not difficult and simply involves looking at the VPT fund balance and identifying a special project that fits within the available revenues.

For those programs that rely on the tax for all or part of the operating budget, planning for the future and prioritizing current expenses are the primary challenges. For those programs where the tax is used for non-operating expenses, fewer challenges exist. But the VPT is clearly less stable than some other revenue sources and may perform best on this criteria when its used is confined to funding non-operating expenses.

Sufficiency

For county-administered programs, the county sends a monthly report to the programs funded by the tax. The report shows how much revenue was collected and how much the county programs can spend. For city-administered programs, the county remits the VPT revenue monthly to the city for city-administered programs. In both cases, the voluntary tax is an earmarked tax and cannot be used for other purposes.

One aspect of the VPT that is of particular interest is the difference in importance of the tax to the various programs. The county-administered programs rely primarily on the voluntary tax for operations, although they may receive donations or have other funding sources for non-operating expenses. For example, the county museum receives funds from private donors and grants.

The city operated programs have revenue sources available for operations in addition to the VPT. According to the city finance director, general fund revenues and the Advertising and Promotion tax help fund parks and recreation, general fund revenues and the spay-neuter fund for

animal control, and the cemeteries receive funds from the sale of burial plots. For the city-operated programs, the city animal shelter and parks and recreation, the VPT is a less important part of the total budget for these programs. Even so, a program administrator stated that, "The VPT is an added tax that citizens can pay, it is not a forced tax. It is geared towards services like animal shelters. Police and fire have to be funded, so the VPT is a source for things like [animal] shelters."

All program directors interviewed reported that their programs could use more funding. The desire for more funding is the most acute for those programs using the voluntary tax either solely or partially for operations. An interviewee stated that, "there are services that would not happen without the tax." These program directors identified areas where they could use additional funding. For the county museum, hiring an additional staff person is critical. An official from the city cemetery identified the need for a custodian and grounds maintenance such as the need for a new fence and headstone repair.

Cost Efficiency

The county treasurer indicates that the costs for the county to collect the VPT are no more than that for the general property tax. Specifically, the cost of remitting the VPT to the city is minimal and no more costly than remitting the general property tax. A specific percentage of all taxes collected is remitted to the county tax collector and the county treasurer to reimburse those offices for the costs of administration. The county does not charge an administrative fee to the cities within the county for collecting and remitting the VPT for the programs administered by the cities. Therefore, the tax does not appear to be any more costly to administer than the general property tax.

Accountability

As noted earlier, accountability is vital to good governance. Previous research found potential accountability issues surrounding the use of VPT funds (Hoffman and Howard, 2017). Namely, there were possible issues with controllability and responsibility.

In the case of the VPTs, there are two main approaches used to ensure the funds are being used properly. The first mechanism is external where the state of Arkansas, through the legislative audit committee, requires an independent financial audit of all cities and counties, annually. VPT revenues are reported in this annual audit. The second mechanism is internal. For the county-administered programs, the quorum court controls

the appropriation of funds and can inquire about the expenditures of the programs. When the county-administered programs want to spend funds, they must complete a purchase order. County financial assistants verify that the expenditures are coded properly so that the funds are taken out of the appropriate account and then confirm that there are enough voluntary funds in the account to pay for the item. Additionally, for the county museum, the program administrator must report to the museum commission and follow the county procedures for any expenditures. Similarly, for most of the city-administered programs, the city council can ask about the use of any of the VPT funds. For the animal shelter and parks and recreation, the program administrator must receive an appropriation via an ordinance to spend funds for the special project. This ordinance further states that the requested voluntary funds be transferred to the appropriate operating account from which the funds will be spent and the ordinance confirms that there is sufficient voluntary tax funds for the project. With the city cemetery, the city does not appear to have the same oversight, as the city simply transfers the voluntary funds to the cemetery to be used for the purpose stated in the ordinance. The cemetery board ensures that the funds are being used properly. All the VPTs align with the state legal requirements and county and city expenditures procedures.

Conclusion

The voluntary property tax appears to be a unique revenue source used in Arkansas. By learning more about its use and impact on public programs, other states could authorize its creation by local governments to fund important and essential public services. Because the property tax is common to all 50 states, this unique version of the tax could be an additional source of revenue for local governments in other areas of the country. There are lessons to be learned from this research:

- Enabling legislation at the state level would likely be necessary to allow the levying of the tax at the local level.
- The process of authorization at the local level, whether done by county and city-elected officials or popular vote of the citizenry, will likely be governed by state constitutional language and/or statutes in the various states.
- The VPT appears to be an unstable revenue source. Therefore, it is recommended that voluntary tax revenue be used as supplemental revenue. In this study, the best practice was found with the City of

Conway Animal Shelter where the revenue is used for special projects to enhance operations.

- Due to the instability of the voluntary revenue, budgeting is likely to be more difficult for programs using this revenue source, but much less so for programs using the revenue for special projects.
- Given the literature on cutback management indicating that capital projects are likely targets for cuts during periods of fiscal stress (Bartle, 1996), the VPT could be used as an alternative funding source if earmarked for special projects.
- If the voluntary tax is used for operations, other funding sources should be available.
- For those programs that rely heavily on the VPT as a funding source, the program would likely disappear or be significantly reduced in scope without the VPT.
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Ultimately, the voluntary property tax could be an additional source of revenue in an environment not necessarily conducive to tax increases, especially for programs that are politically popular by citizens.

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