There’s no such thing as a free lunch,” is a common phrase in economics. It is a phrase that people must remember when considering “no tax increase” bond issues.

Bonds are one of the most common ways for school districts to fund construction of new buildings. They are essentially a loan and are a form of debt. To pay for this debt, school districts levy property taxes. Sometimes districts must levy new taxes to finance a bond and other times they are able to refinance an existing bond and hold the tax levy at the same rate. The latter often are labeled as “no tax increase” bond issues; but make no mistake, there is no such thing as “no tax increase” bond issue.

As I explain in this edition of "Show-Me Now," a “no tax increase” bond issue is a lot like a home equity loan. Your mortgage company can refinance your loan to give you access to cash right now. Often, they are able to do this while holding your payment the same, but extending the length of your repayment. So instead of your payments ending in 10 years, they may be extended to 30 years. Whether you refinance or not, your monthly payment remains the same.

Bonds work in much the same way and school districts can “refinance” to extend the term of the bond. They market this to the public as a “no tax increase” bond issue and claim that your payment will not go down or up whether the issue passes or not. Your tax payment will not change, but you will be paying for a longer period of time.

There is no getting around it, paying the same rate for a longer period of time is a tax increase. Therefore, it is more appropriate to call these a “no tax levy increase” bond issue.

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Advancing liberty with responsibility by promoting market solutions for Missouri public policy.

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