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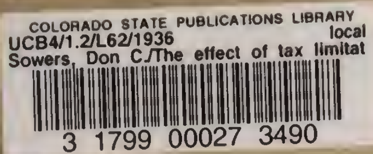
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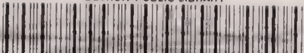
# The Effect of Tax Limitation Upon State and Local Governments in Colorado

by

Don C. Sowers, Director
Bureau of Business and
Government Research
University of Colorado
Boulder, Colorado

June, 1936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CHAPTER I

# INTRODUCTION

This report has been prepared in the hope that it may contribute to clear thinking in Colorado on the subject of property tax limitation. It undertakes to evaluate the actual effect of the overall tax limitation laws which have been imposed in seven other states, upon the operation of state and local governments and upon tax reform. The people of Colorado should be informed as to the consequences which follow the adoption of restrictive limitation plans in order that they may make intelligent decisions regarding the adoption of this method in this state.

The first and most important duty of citizens in a democracy is to be informed regarding the operations of government and next to contribute to the formulation of a sound public policy upon the basis of accurate and complete information. One of the most difficult problems confronting citizens and voters is to distinguish between plans and policies which are advanced by particular groups for the purpose of serving their own special purposes and policies which are for the general welfare of the whole community. Much of the controversy and haze surrounding many public problems arises from the fact that special groups seeking special ends, usually endeavor to bolster up their plan with the specious pleas and arguments which purport to show that their plan is for the general welfare.

For this reason, the attempt is made to present not only the arguments for and against tax limitations but to determine in a scientific manner just how the plan has worked out in actual practice in other states. Such a study is complicated by the fact that a considerable portion of the decrease in property taxes which has taken place since tax limitations have been imposed, has been due to declining assessed valuations and a general effort on the part of public officials to reduce expenditures and taxes during the depression period. It is difficult to determine accurately how much of the decline in tax revenues obtained from property is due to decreased valuation, tax delinquency and reduced tax levies and how much is the direct result of tax limitation laws. For example, the assessed valuation of the state of Colorado declined 30.8 per cent between 1929 and 1934 and total revenue collected on property declined 25.8 per cent, in spite of the fact that no rigid tax limitation provisions were in effect.

Another difficulty inherent in any attempt to appraise the situation at the present time, arises from the fact that the full effects of the restrictive tax limitation laws will not be observable for several years. If the use of public credit is seriously impaired or curtailed many needed public improvements will have to be postponed and the full effect

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of such postponement will not immediately appear. If the plan results in the accumulation of heavy bonded indebtedness, the real burden may not be fully realized for several years.

The plan of the study is to present historically the origin and development of the tax limitation movement and the arguments which have been advanced in support of the movement. Next the arguments against tax limitation will be presented. This will be followed by a critical examination of the actual operation of the plan in each of the seven states which have adopted it. The next section of the report will deal with the effect of the proposed tax limitation amendment upon state and local governments in Colorado. The report will conclude with a summary statement of the findings and alternatives to tax limitation.

I wish to thank in particular Professor G. S. Klemmedson of Colorado State College and Professor A. E. Joyal, Director of W.P.A. Research Projects, for State Department of Public Instruction, Denver, for valuable assistance in the preparation of this study. Professor Klemmedson made available to me his valuable collection of documents and pamphlets dealing with this problem and Professor Joyal furnished me with advance copies of his exhaustive analysis of the effect of tax limitation upon the schools of Colorado. I also wish to make acknowledgment to Martin F. Schmidt, my colleague, who compiled much of the statistical material upon which my conclusions were based.

DON C. SOWERS.

University of Colorado
Boulder, Colorado
June, 1936

## CHAPTER II

## ORIGIN AND DEVELOPMENT OF THE TAX LIMITATION MOVEMENT

The overall tax limitation movement is of comparatively recent development, and may be said to be an outgrowth of the depression period. The overall tax limitation establishes a maximum rate of levy on property which the aggregate of state and local levies may not exceed.

The older type of tax limitation imposed limitation on the rates which could be levied by each class of taxing subdivisions, state, counties, schools and municipalities. Twenty-one states limit the rate which may be levied on property for state purposes, as does Colorado where the maximum rate is 5 mills. In thirty-seven states the county levies are limited. In thirty-six states, municipalities cannot exceed the maximum prescribed. School districts, townships, and other taxing units are limited in some states. These earlier tax limitation laws were imposed largely for the purpose of preventing taxes from going higher and in the main were fixed at a point which did not seriously interfere with the normal operation of state and local governments. Where the limitation proved to be too restrictive various plans were developed to liberalize the legal provisions such as raising the limits, or entirely abolishing them, exempting certain levies from the limitation, creating new units of government for carrying special functions, which could levy taxes outside the limits, issuance of deficiency bonds and juggling the accounts of revenue-producing enterprises so as to shift the earnings to current expense account and pay out of additional taxation the interest and amortization charges on the debts of these enterprises. A study of these older types of tax limitation is beyond the scope of this report. A great majority of the states have experimented with them and have revised them at frequent intervals as the need for change and modification became apparent.

This report is concerned with the newer type of overall tax limitation which is imposed with the definite objective of reducing the tax burden on general property and shifting the burden to other sources of wealth.

The laws of seven states—Indiana, Michigan, New Mexico, Ohio, Oklahoma, Washington, and West Virginia—provide that the aggregate levies on any parcel of property shall not exceed a prescribed rate. In Indiana and Washington the maximum limitation is fixed by statute while in the other five states it has been written into the state constitution.

Indiana in 1932 passed a law which limits total tax levies to one dollar on each hundred dollars of taxable property located outside of incorporated municipalities. The limit is flexible in that it provides that the county board of tax adjustment may increase tax levies beyond the limit in cases of emergency.

Michigan, by constitutional amendment, adopted in November 1932, restricts taxation to 15 mills or a dollar and a half for each hundred dollars of taxable property but a court decision later exempted special charter cities from the operation of the amendment. Taxes levied for existing debts are exempted and additional levies may be made outside the limitation, by two-thirds vote of the electors.

New Mexico, in 1933, by constitutional amendment, limited taxation to 20 mills or two dollars for each hundred dollars of taxable property except special levies on special classes of property and levies for public debt. Taxes may be levied outside the limitation by a majority vote of the electors.

Ohio has limited total taxes, by statute, since 1911, to a maximum of 15 mills. In 1929 this limit was placed in the constitution. In 1933 the constitutional limit was reduced to 10 mills. Municipalities, with charters containing specific limits, are exempt as also are taxes levied for prior debts. Increases are allowed beyond the limitation by majority vote of the electors.

Oklahoma, in 1933, amended its Constitution to provide for an overall tax limitation of 15 mills. This does not include sinking fund levies and there are two exceptions in that the county may levy an extra tax of 2 mills for negro schools and the school district may increase its levy by 10 mills if the voters approve. Thus the real limitation is 27 mills rather than 15 mills.

Washington adopted an initiative measure in 1932 which set a maximum limit of forty mills for the general property tax on city property and 25 mills on rural property on an assessed valuation which is legally presumed to be fifty per cent of true value. The measure established for current expenses a maximum levy of five mills for the state, ten mills for the county, ten mills for the schools, and fifteen mills for the city and provided that additional levies might be made for payment of bond obligations if approved by a two-thirds vote of the electors. A second initiated measure adopted in 1934 provided that levies for bonds issued subsequent to 1934 must come within the millage limit, and extra levies for prior debts were limited to five mills.

West Virginia in 1932 by constitutional amendment classified taxable property into four groups and restricted the tax levies upon each group as follows: 5 mills limit on agricultural property, 10 mills on property used as a residence by the owner, 15 mills on other rural property and 20 mills on other urban property. Provision was later

made for levying outside the limits for debt service, contractual debt charges and operating levies in cities free from debt. Increases are permitted up to 50 per cent by two-thirds vote of the taxing units, good for three years.

These overall tax limitations have been sponsored principally by real estate groups but aided by taxpayers organizations and large corporations. The depression presented an opportunity for the distressed alarm of heavy tax burdens to place restrictions on tax levies in the state constitution for the purpose of enabling general property to be relieved of a portion of its burden by shifting it to other groups.

The strategy of the real estate group is explained by Adam Schantz III, Dayton, Ohio, Chairman of the National Committee on State and Local Taxation of the National Association of Real Estate Boards.

"I attribute much of our success in Ohio in attaining the one per cent limitation amendment to an unusual and widespread public support by 'butchers, bakers, and candlestick makers.' We religiously avoided even peeping the words 'Sales tax', 'Income tax', and 'Other Taxes'. We kept our hands strictly off any suggestion for new taxes. Had we begun to suggest a State Sales Tax or an Income Tax or some other form of tax we would immediately have incurred the enmity of groups and individuals specifically touched by such new taxes advocated. As it was, we aroused no antagonism by suggesting where the tax should be placed. We only used simple slogans such as 'Save our Homes', 'Fair Taxes for Real Estate', etc.

"Attempt after attempt was made by a certain group opposed to our limitation amendment to get us to come out specifically and state where replacement taxes should fall. They knew that would be our 'Achilles' Heel' and they were out to strike us in a weak and vulnerable spot.

"Whenever the protectors of other forms of wealth carry on their lobbying activities and organizations, they are not particularly interested where taxes fall so long as taxes do not fall on the particular thing they are trying to protect. Why then should the real estate interests seek to execute themselves and lose chances for their own protection by being pulled into this trap? I will agree that this is not the enlightened way to look upon the problem of solving our taxation mess."[1]

It appears clear from this statement that the objectives of the real estate group were not tax reduction or tax reform but a shifting of tax burden from real estate to other forms of wealth. In effect their position seems to be one of entire indifference as to who shall bear the burden which they refuse longer to bear or as to the crippling effects upon local governments. Briefly stated their position is "We'll pay only so much, get the rest of your money somewhere else or go without." Such a position may be described as a "tax strike" or tax revolt.

In a discussion following the presentation of a paper by Mr. Adam Schantz at the National Tax Association meeting held in Boston in

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1. First tax letter from Adam Schantz, III, chairman to National Committee on State and Local Taxation. Subject: Proposed Program for Committee.

1934 on the subject of "Real Property Tax Limitation" Professor S. E. Leland made the following comment:

"It is high time that the people of this association and other associations should go clearly and positively on record—and I think every intelligent man that knows anything about government or government finances is decidedly on record—to the effect that there is nothing whatsoever to be said in favor of tax limitation plans, except the fact that it works out to the benefit, in theory, of those vested interests which are now trying to foist this plan over on an ignorant electorate."

To this Mr. Schantz replied:

"Now that my intelligence has been placed upon its proper plane and realizing the fact that whatever Professor Leland may say will have nothing to do with the fact that tax limitation is going through this country like an epidemic, I still insist and still contend that this thing will be fought through."[2]

The motives that have actuated other groups which have supported tax limitation proposals have undoubtedly been the desire to compel a reduction in public expenditures. These motives appear in the vicious attacks which are made on "tax spenders" and "tax eaters" who are visualized as living in luxury and wasting public funds.

Mr. Herbert U. Nelson, Secretary of the National Association of Real Estate Boards, in an article entitled "The Case for Tax Limitation" attempts to justify tax limitation as a device to force or compel tax reform. He says "The case for tax limitation must rest on the desirability of such limitation as a means of initiating a rapid and reasonably equitable rearrangement of our obsolete revenue plan to fit more nearly the social economies of a new age." "The case must therefore rest on: . . . the train of further adjustment for which it paves the way; in other words, the forcing power, if you please, which it appears inevitably to exercise for comprehensive tax modernization." Again he says "The finest thing which can be said for tax limitation is that a train of further tax reforms in practice, follow it." He contends that imposition of tax limitation has the following desirable results (1) "Widening of the tax base, (2) shifting of the collecting function more largely to the state since most new sources of revenue can be tapped effectively only by the state, (3) allocation of state-collected taxes to the local units, (4) shifting of such expensive services as education and highways from local to state government, (5) pressure for accurate and fair assessment of property for tax purposes, and (6) pressure for the simplification of overlapping governmental units. He says, "Our tax system is a shell, a hard shell, an XVIII Century cocoon. . . . Tax limitation . . . seems to work, in practice as the most direct and effective force we have yet found to crack the cocoon." Over and over again Mr. Nelson repeats the idea, that tax limitation is desirable because of the possibility of its use as a means to effect tax

2. National Tax Association, 1934, p. 53-54.

reform. He cites as proof of this the reduction of real estate taxes in the states which have adopted overall tax limitation, the development of new tax plans, the growth of state aid to local units and the assumption of a portion of the burden of school and highway costs by the state.

"It must be admitted (Nelson says) that there have been bumps, jolts, dislocations, hardships, difficulties, weakness, and mistakes in limitation laws as so far put into effect."

Finally Mr. Nelson points out that the proponents of the tax limitation do not put forward such a measure as something ultimate to be retained always. We advance it only as a method which meets practically an urgent present need. Real estate is and always will be, out in the open, vulnerable to tax attack. At a time when economic relationships are undergoing profound upheaval, real estate is the one form of wealth which cannot hide or withdraw. For the present, it is not too much to say it must have some such adjustment as limitation gives. Meantime as thoroughly modernized state and local revenue systems are involved it is, as a matter of fact, highly probable that we shall find the fair share of government costs which they eventually allot to real estate to be very much the same as that represented by the present one to one-and-one-half per cent overall limits."[3]

Mr. Jens P. Jensen of the University of Kansas has shown that the major argument on which Mr. Nelson has chosen to rest the case for tax limitation, namely, that it forces tax reform, is of doubtful validity. In all of the states which have tax limitation the forcing power has resulted in the adoption of retail sales, gross receipts or gross income taxes and only one of the states, namely New Mexico, has adopted a state income tax. Oklahoma already had an income tax and in Washington the income tax was adopted before adopting tax limitation and has since been declared unconstitutional. Mr. Jensen does not regard the adoption of sales taxes as a movement in the direction of tax reform. He says "Tax limitation does not lead to reform of taxation, at least not to any kind of tax reform that I can recognize as such."[4]

Most students of taxation agree with Mr. Jensen that the adoption of sales taxes "marks an unnecessary and backward step in taxation". It appears that tax limitation did cause lawmakers to seek new sources of taxation and in desperation and haste they seized upon the tax which was being assiduously advocated, for obvious reasons by real estate interests, automotive industries, and big income taxpayers, namely the sales tax. The tax limitation movement thus far has resulted in shifting tax burdens from real estate owners to the back of the least fortunate citizens, in the shape of heavy sales taxes which fall

3. Herbert U. Nelson. "The Case for Tax Limitation," Property Tax Limitation Laws Public Administration Service, No. 36, pp. 6-11.

4. Jens P. Jensen, "Property Tax Limitation", Tax Policy League Vol. II, No. 4

upon such vital necessities as food and clothing. A tax plan which gouges from $15 to $20 a year from the $1,000 a year laborer regardless of his dependents, indebtedness or other handicaps can hardly be considered as a desirable tax reform. "Whatever merits these taxes (sales) may have as producers of revenue, they are intolerably regressive in their incidence. Tax limitation will be the rich man's relief and the poor man's burden."[5]

*Tax limit movement seems to be on the wane.*

The nationwide campaign to limit property taxes is still being energetically waged by the National Association of Real Estate Boards and other groups in many states, yet its success has been slight during 1934 and 1935.

Constitutional amendments, providing for overall tax limitation were defeated by statewide referenda in Kansas in 1932 and in Oregon in 1934. Georgia will vote on a proposed constitutional amendment to limit the property levy to 1.5 per cent in November, 1936.

During 1935 an avalanche of tax limitation bills were introduced in the legislatures of the various states but most of them were defeated. Proposals for constitutional limitation were introduced in Arizona, Florida, Iowa, Illinois, Maryland, Massachusetts, Minnesota, Nebraska, New York, Ohio, and Texas and for statutory limitation in Illinois, New Jersey, Pennsylvania, and Utah. In Ohio it was proposed to further reduce the constitutional limit from 10 mills to 5 mills. All of these proposals failed of passage. It would appear that when the tax limitation proposals are carefully considered by the members of the legislature and both sides of the question are presented that the legislators have not been convinced of the wisdom of adopting the plan. This may explain why attempts are now being made to refer the proposition to the electorate thru initiated petitions. Perhaps the general improvement in business conditions has been responsible for the failure of other states to adopt the plan during the last two years.

5. Jens P. Jensen, "Tax Limitation", Proc. National Tax Association, 1935, p. 344.

## CHAPTER III

## ARGUMENTS AGAINST TAX LIMITATION

The first objection to placing a definite and fixed limitation on the proportion of the tax burden which may be borne by real estate in the state Constitution is that the matter is one of policy and not of principle. The proportion of total income taken thru taxes fluctuates materially from decade to decade and tends to increase as governments are called upon to perform a greater number and variety of services and activities; in view of this tendency why should the income from real estate be protected from such fluctuations by a provision in the fundamental law? Why should not other forms of income also be protected? The fact that real estate has been bearing too large a share of the tax burden may constitute a sufficient reason for a reduction in taxes on real estate but hardly justifies the necessity or wisdom of putting a fixed limitation in the Constitution.

*One Per Cent does not represent real estate's fair share of taxes.*

The limitation of one per cent of true value, as the correct proportion of taxes which should be contributed by real estate, is not based on any scientific investigation of the problem. The proponents of the plan make this statement.

"Overall tax limitation of 1% of true value is suggested because it is believed that this represents an equitable tax and one which is economically sound.

"It has long been accepted in the United States that a 6% return from an investment is a satisfactory average. This applies to real estate as to other investments. On this basis a tax of 1% would represent one-sixth of the return from the real estate investment, or the equivalent of a 16⅔ income tax.

"Real estate owners feel that this is equitable and they have no desire to escape their equitable share of taxation."[1]

In our present state of knowledge it is difficult to determine what proportion of taxes ought to be contributed by real property but all students of taxation are agreed that property should constitute one of the important bases of taxation and that it would be unwise to place rigid restrictions on the ability of governments to continue to tax it. The unearned increment from the appreciation of urban sites represents sources of wealth of enormous magnitude and the property tax is the only device we have for reaching this unearned increment in the value of land. The New York State Commission on the Revision of the Tax Laws recently made a study to determine what current services and what long run benefits are obtained by real estate owners from

1. National Association of Real Estate Boards "Overall Limitation of Real Estate Taxation", December, 1935, p. 7-8.

the activities of the local government which they help to support. It was discovered that the following services were directly beneficial to property owners; police patrol, fire fighting and prevention, sanitary collection and disposal, sewer maintenance and operation, water supply, care of streets and other public utilities. Another group of services such as traffic control, city planning, inspection services, the law department and the courts are specifically beneficial to property owners in part only. In addition, capital outlay, interest charges and bond retirement costs for such improvements as bridges, subways and viaducts, schools and libraries, parks, civic centers and public buildings, result in benefiting property owners because of their favorable influence upon property values. It is apparent that a substantial part of the activity of local government is directed toward rendering services which directly benefit property owners. The conclusion reached by a careful detailed analysis of general property tax revenues and expenditures in the twenty largest cities in New York covering a five year period was "that on the average more than half of the general property tax revenue goes to pay for the maintenance, interest, and improvement outlay for direct beneficial services," and that at least half of the taxpayers' money annually expended is for services which directly benefit taxpayers and that the bulk of these expenditures are related to direct benefits to property owners.

"The conclusion that may be drawn from these facts is that a part of the tax bill (more than half, on the average) goes to pay for services and for capital investments which are of benefit to the taxpayer. Their beneficial character is further attested to by the continuous flow of requests, applications and demands to the government by interested taxpayers, for an improvement or an extension of such activities."[2]

The enormous increase in land values in urban communities and the specific benefits enjoyed by real property as a direct result of local government expenditure constitute the basic reasons for the taxing of real estate especially by local governments. The facts indicate that real estate should bear at least one-half of all local government expenditures. This may require much more than one per cent of the value of real estate for local government purposes alone and the percentage of value may be expected to vary from decade to decade depending upon the extent of new services performed for the direct benefit of real property. These facts demonstrate the economic unsoundness of placing rigid limitations on the amount of taxes which real estate should bear. The increase in land values and ground rents in urban communities arises in part from the growth of population, for which landowners, as such, deserve no credit and in part from government expenditures for police and fire protection, education, recreation, sani-

2. Report of the New York Commission for the revision of Tax Laws, 1932. Memorandum Number Five, "Is the Real Estate Tax a Benefit Tax," by Edwin H. Spangler, p. 100.

tation and similar purposes. A tax system to be ethically just and economically sound should depend in part on this community created wealth especially in urban communities. In fact it is maintained by some that real estate as a whole may be unjustly taxed but that land is undertaxed and that tax relief ought not to apply to land values but to improvements on land. It appears also that taxes have had little effect upon the broad up and down movement of real estate values during periods of prosperity and depression. As Herbert Simpson of Northwestern University points out, "We have had the most rampant speculation and most spectacular real estate appreciation and activity in periods of rapidly mounting taxes; and we have had prolonged decline and stagnation of real estate activity in periods and regions where taxes were negligible."[3]

*Tax Limitation has neither forced tax reform nor reduced expenditures.*

Tax limitation has not accomplished either of the major objectives predicted by its sponsors. It has neither forced nor compelled a desirable tax reform nor reduced expenditures of governments. Limitation has resulted in shifting but not in alleviating the tax burden. Relief for the property owner has meant an added burden on the poor man whose taxes have been increased.

The situation in Ohio has been described as follows. "The annual budget showed very little reduction as a result of the 10-mill limitation. Taxes were not reduced, tax burdens were shifted. The saving in real estate taxes is from $4.00 to $5.00 per one thousand dollars assessment valuation. Assuming that the average home is assessed for taxation at three thousand dollars, the average taxpayer will save from $12 to $15 on real estate taxes.

It has been estimated that the 3 per cent sales tax will cost the average urban resident from $20 to $40 per year. The large owner of real estate including the public utilities and the owners of valuable downtown property have effected a tax saving. The small taxpayer, however, is finding that the 10 mill limitation is costing him more money than he saved on real estate taxes."[4]

In Michigan tax limitation forced the adoption of a 3 per cent retail sales tax which is obviously not tax reform and it erected another barrier to the adoption of an income tax. Replacement taxes have been a necessary accompaniment to the property tax reduction program and retail sales taxes have been the type of new taxes most frequently substituted. Students of taxation are practically unanimous in their opinion that sales taxes do not meet the test of a just and scientific tax system and that their adoption does not constitute genuine tax reform.

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3. Herbert D. Simpson, "Tax Relief for Real Estate," Tax Policy League, Volume II, No. 9, p. 7.

4. S. J. Barrick, "Ohio Learns a Second Lesson," National Municipal Review, November, 1935, p. 618.

It is extremely doubtful if the total reductions in expenditures have been any greater in the states which have adopted tax limitations than in states which have not limited taxes. During the depression all state and local governments curtailed expenditures, regardless of tax limitation and much of the reductions in expenditures claimed by the sponsors of tax limitation have resulted from the depression and not from the tax limitation. A competent observer in West Virginia reports that "Whatever West Virginia may have learned from the tax limitation amendment it is very clear that 'tax limits' have not meant 'tax relief'. State and local government combined is spending within a few per cent of what it spent in the recent past, and this in the face of the fact that administration, legislation and press have carried on an unceasing campaign for reduced expenditures."[5]

Tax limitation has resulted either in a curtailment of local revenues and services or has forced local government to resort to expedients which ultimately increase the cost of local government. In the meantime, schools and municipalities have a most confused and uncomfortable experience, and local government is virtually wrecked. This situation arises from the fact that the new replacement taxes usually fall short of the estimates of yield and the state government appropriates to itself a considerable share of the proceeds and only reluctantly returns a niggardly share of the revenue to the local governments.

In Ohio the reduction in property taxes due to the 10 mill limitation has been estimated at $40,000,000. The sales tax was estimated to yield $60,000,000. The tax actually yielded $47,890,125 for the period January 27 to December 31, 1935. The state, however, appropriated over $18,276,500 of sales tax revenues for old age pensions and for relief which left only $28,000,000 to be apportioned to the schools and municipalities of which the schools received 60 per cent or $16,846,000 and the municipalities 40 per cent or $11,230,000. The deficit of local governments exclusive of school districts in 1935 was about $6,000,000 as a result of the failure of the sales tax to yield the amount originally estimated.

In Michigan similar results followed tax limitation with the result that schools have been forced to shorten the school year, cut teachers salaries, and reduce the teaching staff. In cities it forced the closing of fire stations, reduction in the number of firemen and policemen, reduction of street cleaning, sewage and garbage disposal, closing of parks and recreational facilities.

West Virginia virtually throttled her cities by adopting a limitation law so tight it left nothing for operation after debt service and other purposes. Many cities in the state closed the city halls, discharged employees and abandoned many governmental services.

5. John F. Sly, "By Products of Tax Limitation in West Virginia," National Municipal Review, November, 1935, p. 614.

Morgantown, the home of the State university, vacated all offices and positions and discontinued street lighting and fire protection. Wheeling discharged all employees and abandoned all attempts to render governmental services. In some cities prisoners were released from city jails. It took three sessions of the legislature to untangle the involved situation and in the meantime the greatest confusion prevailed.

In Ohio during the time the Smith 1 per cent law was in operation a debt burden of approximately $100,000,000 was shifted to the backs of taxpayers.

"Under the pressure of inadequate revenues, local governments went heavily into debt for the financing of current operation. By 1921 Ohio local government had some $39,000,000 of deficiency bonds outstanding in the total debt of $608,000,000. One-fifth of the indebtedness of the City of Cleveland exclusive of utility and special assessment debt, consisted of deficiency bonds, and in some smaller cities such bonds ran as high as 30 or even 40 per cent of the total. Including street repair bonds and the like Ohio local government probably issued more than $50,000,000 of bonds for financing current expenses before the Smith law limitations were finally relaxed."[6] From 1912 to 1922 taxes of counties and municipalities in Ohio rose from $1,158,000,000 to $2,277,000,000 while indebtedness increased from $3,256,000,000 to $5,964,000,000.

"Taking the cities as a whole, deficiency bonds made up more than 14 per cent of the municipal debt, exclusive of special assessment and public utility bonds. In Cleveland they formed 19 per cent of the debt, in Dayton 24 per cent and in a few smaller cities the ratio ran as high as 40 per cent. . . . Moreover account must also be taken of the fact that the shortage of revenue compelled the complete abandonment of the pay-as-you-go policy in financing improvement. . . . Fully half of the annual tax revenue of a large percentage of Ohio cities is now required for debt purposes."[7]

Local governments suffer most under tax limit due to inadequate revenues, resulting from restricted levies on property, and insufficient yield of replacement taxes, and restricted credit. They must resort to the accumulation of floating debts for current operation, and the use of special assessments for financing current services, inadequate provision is made for sinking funds and debt retirement and existing sinking funds are used for current operation all of which greatly increases the cost of local government.

*Local Government Credit Imperiled.*

One of the most serious consequences of tax rate limits is their detrimental effect on municipal credit.

''Ability to borrow and the rate at which loans can be secured are contingent upon the risk involved to the lender, and such risk is manifestly increased when arbitrary limits are placed upon a municipality's ability to tap its resources for repayment.''[8] Inclusive limits of 1 or

6. R. C. Atkinson, "Stringent Tax Limitation and Its Effects in Ohio," Property Tax Limitation Laws, Public Administration Service, No. 36, p. 69.

7. Atkinson, "Tax and Debt Limit Laws", Proc. Seventeenth National Conference of the National Tax Association, 1924, p. 158.

8. F. L. Bird, "Effects of Tax Rate Limits on Municipal Credit", National Municipal Review, November, 1935, p. 607.

1½ per cent on all general property taxes within a state constitute a real menace to municipal credit.

The attitude of the Investment Bankers Association toward tax limitation was expressed in a report by its municipal securities committee in 1932. The Committee said:

"Granting that taxes on real estate have in many localities been unduly burdensome and may be properly subjected to limitation for operating expense, investors in municipal bonds have long recognized the dangers of such limitations affecting the levy for bonds and interest. Limitations on the amount of debts to be incurred are highly desirable, but when bonds have been issued there should be no limitation in the power to levy taxes to pay the same. Those states which are considering limitations should realize that unless the levies for debts to be incurred in the future are not exempted the municipalities will be obligated to pay a higher interest cost for future obligation and in many cases will be unable to borrow at all. To jeopardize the ability of localities to borrow for such purposes as emergency relief, the report held, was 'most dangerous'. The principle that tax limitation laws should not impair the ability of local government to pay debts has been recognized by the federal government. In accepting loans from the Public Works Administration municipalities are required to agree to repay such loans from unlimited ad valorem taxes. Loans made by the P. W. A. to Cleveland, Ohio, were withdrawn because of a constitutional tax limitation which did not except debt payments from its provisions."[9]

A bond firm in Ohio analyzed the effect of limitation on future municipal bonds as follows:

"Because the 10-mill limitation will affect new issues of bonds in the future we believe this particular type of bond will be unpopular and practically unsalable, which would force municipalities to obtain a vote of the people in all new issues of bonds, thereby making them unlimited tax bonds. Inasmuch as our present law calls for 65 per cent favorable vote in order to obtain approval to issue bonds the result should be that new issues should be very small in number with the consequent reduction in debt at a rapid pace."[10]

The net result of tax limitations will be to either prevent borrowing at all or will cause added expenditure in the form of increased interest rates.

*Tax Limitation leads to unwise state centralization.*

"Tax limitation invalidates at a single gesture the concessions which have established the right for municipalities to govern themselves according to their special needs and conditions. With their tax levies fixed by the law of the state, local units find themselves in financial straight jackets and are helpless to move except in the direction of greater reliance upon state and with its corollary of state regulations. Any businesslike management of local government can not be maintained by depending on the benevolence and magnanimity of state government. If we are to retain democracy and representative government citizens must be in a position to solve their own local problems."[11]

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9. Editorial Research Reports "Reduction in Tax Burdens on Real Estate", Vol. II, 1935. Number 23, p. 488.

10. National Real Estate Boards, "Overall Limitation on Real Estate Taxation", p. 31.

11. Minnesota Institute of Governmental Research, Research Bulletin No. 1, December, 1934, p. 15.

Scientific budget making as an effective method of controlling expenditures is replaced by rigid tax restrictions. The energy and ingenuity of local officials is shifted away from efficient budget planning and is directed toward securing an increase in the allotted share of state collected revenues, in increasing the allotted levies, or in devising ways and means of avoiding the prescribed limitations. An increase in the support of local governments from the state tends to decrease the incentives for economy in local expenditures. If state control and state supervision are increased to a point where it will be effective in controlling local expenditures, only nominal local self government will remain. Where the expansion of state aid to local schools has resulted in making it unnecessary for certain wealthy districts which are fully able to support an educational program, to continue to depend on local resources, the result is undesirable as it tends to weaken local responsibilities. Where tax limitation has resulted in the abandonment of the state levy on property it has tended to undermine the position of the state tax commission in the administration of the general property tax and the inevitable result will be gross inequality in the assessment of property thruout the state.

*Rigid Statewide Tax Limits Unwise.*

The fundamental objection to a rigid statewide tax limit is that it is absolutely impossible to fix a limit which allows sufficient leeway to take account of the variations in wealth and needs of different communities. Large variations in tax rates are due not to inefficient local administration but to fundamental differences in taxable wealth and assessed valuations. If the tax limit is fixed too low it will result in checking useful development and necessary activities. If fixed too high it will encourage waste and extravagance. Even such fundamental considerations as the difference between urban and rural districts are ignored in some tax limit laws. The needs and requirements of counties, cities, and school districts vary greatly. The physical location, character of the population and rate of population growth all affect the costs of government and the demands of local citizens. Certain cities may want to undertake commendable enterprises necessitating heavy expenditures while others may not. Certain cities may have to go long distances to obtain an adequate water supply at enormous cost while others more favorably situated do not need to incur such heavy costs. For these reasons most students of taxation are agreed that arbitrary tax limitation should not be placed in the state Constitution. A high degree of elasticity and flexibility is required to successfully adjust any tax limitation plan to the needs and taxable resources of various communities and such experimentation should be done by statute.

Arbitrary tax limits have not succeeded, wherever tried in checking the normal increase in public expenditures. The popular demand

for improvement and for governmental services has either brushed them aside or secured their amendment. They have been evaded by one device or another such as by increasing valuations, by funding deficits, by increasing bonded indebtedness, by resorting to special assessment for current activities, by creating special taxing districts and by voting extra levies outside the limit. These methods have proven to be uneconomic, and expensive in the long run but as the New York Committee of Taxation and Retrenchment points out "There is no way in a democracy of blocking a genuine popular demand for increased governmental service through an arbitrary limitation upon the tax levy."[12]

*Tax Limitation benefits chiefly large property owners and absentee holders.*

Dr. Clarence Heer studied the effect of a one per cent property limitation in Chicago to determine who would be benefited thereby. His conclusion was as follows:

"The great mass of the actual residents of the city, comprising individuals of modest means, both renters and home-owners, would lose more than they gained thru the operation of the limitation. The chief gainers would be corporations, non-resident taxpayers, and resident property owners whose wealth placed them above the need for municipal social services."[13]

This would be the situation where the property tax reduction resulted in seriously curtailing local services. Where the loss in property tax is replaced by retail sales tax it is clear that the real estate tax is simply shifted to the consuming public, which means that the largest share of the burden is borne by the poor or low income groups. Eighty-three per cent of all goods and service sold in the American market are consumed by families with incomes of $3,000 or less. The attitude of the real estate group and others behind the tax limitation movement is simply this: "We'll only pay so much; get the rest of your money somewhere else or go without." In most of the states the additional money needed has been secured thru a retail sales tax. The net result has been a shifting of the burden from real estate owners to the poor man and his dependents.

*Tax Limitation is almost universally opposed by students of taxation.*

Tax students and economists are almost universally opposed to tax limitation. A questionnaire on tax problems sent by the Tax Policy League to the senior professors of public finance in 52 of our 100 largest colleges and universities indicated substantial agreement on many current tax questions of the day. The following table sum-

12. Report of the Special Joint Committee on Taxation and Retrenchment, Leg. Doc. No. 80, 1920, p. 106.
13. Property Tax Limitation Laws, Public Administration Service, No. 36, p. 25.

marizes these opinions on certain aspects of property taxation and tax limitations as of January 1, 1935.[14]

| | Yes | No | Non-committal or modified answers |
|---|---|---|---|
| Retention of property tax as major source of local revenue | 42 | 7 | 3 |
| Should state constitutions contain tax limit provisions | 3 | 45 | 4 |
| Should state statutes contain tax limit provisions | 10 | 30 | 12 |
| Should constitutional uniformity clauses be abolished | 41 | 4 | 7 |
| Should state limit debt incurring powers of local governments | 42 | 2 | 8 |

The general opinions and conclusions of tax students have been clearly stated by Professor Simon Leland of the University of Chicago and a member of the Illinois Tax Commission.

"First that tax limitation laws have not limited property taxes; secondly, that they have not accomplished the reformation of state-local tax systems, at least not yet; thirdly, that they have not produced economy in government, nor are they either a logical or constructive avenue of approach to that goal; and lastly, that where tried this scheme has so frequently curtailed governmental service and produced fiscal chaos that the plan has been permanently discredited.

The conclusion is unescapable that the tax limitation plan is an unintelligent and ineffective method of accomplishing desirable results. It is negative and selfish rather than constructive and in the social interest. The surprising thing is that the non-property owners have stood by and allowed tax limitations advocates so easily to interfere with public services and public finances. What a pity so much energy could not have been devoted to an intelligent effort to improve state and local fiscal systems."[15]

14. Tax Systems of the World, Sixth Edition, p. 365.

15. Report of Illinois Tax Commission on Constitutional Tax Rate Limitations for Illinois. 1934. p. 151-2.

# CHAPTER IV

## EFFECT OF TAX LIMITATION IN OTHER STATES

It is the purpose of this chapter to consider the actual effects of tax limitation upon the operation of state and local governments in the seven states which have adopted the plan. It is necessary to know much more than the phraseology of the amendments, the amount of the limitations imposed, the exemptions allowed and the machinery set up for administering the new system. In addition, one must know whether total expenditures have been reduced and to what extent this has resulted in curtailing needed public services or to what extent future improvements and new services are estopped. What new sources of revenue have been developed and upon whom does the burden rest? Have decreased current expenditures resulted in increased floating or permanent indebtedness? In order to obtain up-to-date information on these points letters were written to the state tax commissioners, state auditors, departments of education, to obtain their comments and suggestions and the latest available official documents. Letters were also written to recognized students of taxation in these several states to learn what significant studies had been made dealing with the subject and also for the purpose of obtaining the opinion of these persons as to the actual operation of the plan. A detailed account of the operation of the plan in each state will be presented.

### INDIANA

The Indiana tax limit law, passed by the legislature in 1932, and amended in 1933, provides that the general property tax levies of all local governmental units shall not exceed one and one-half per cent of assessed value on property within incorporated municipalities nor one per cent on property outside of them. The state levy on property is limited to fifteen cents per $100 of taxable property, which leaves $1.35 for the operation and debt charges of all local taxing units.

The operation of the law is vested in a county board of tax adjustment and the state board of tax commissioners. The county board of tax adjustment is composed of seven members, of which one is a member of the county council and six members are appointed by the judge of the circuit court of each county. One member shall be a township trustee, one a mayor of a city and one a member of a school board and three shall be resident freeholders of the county. The county board may change, revise or reduce but may not increase tax levies, except in cases of emergencies, in which case it may authorize levies in excess of the maximum 15 mill limit fixed by law although the total rate thus fixed cannot exceed the total rate as first fixed by the local authorities.

The Board may not reduce specific tax levies made by local offices for the purpose of providing funds for the payment of obligations or for refunding bonds issued to pay obligations incurred prior to August 8, 1932.

An appeal from the rates as finally fixed by the county Board of Tax Adjustment may be made to the State Board of Tax Commissioners by any ten taxpayers owning property affected by the rate of any municipal corporation whose rate has been reduced. The State Board of Tax Commissioners has power to affirm, change, revise, or reduce any of the levies but may not increase the levy above the total levy first fixed by the local officers or the total rate as fixed by the county tax adjustment board.

All of the ninety-two county tax adjustment boards have sanctioned rates in excess of the statutory limits. However, before the law was amended in 1933 to provide for additional levies to take care of debt charges, fifteen counties had defaulted on their bonds. In 1934 only ten of the rural units had levies within the $1.00 per $100 limit and nine-tenths of all units were levying taxes in excess of the legal maximum. The lowest county seat rate was $1.94 and the highest was $4.65. During the year 1935 the State Board of Tax Commissioners considered appeals on tax rates from 96 taxing units out of the total of 1,591 taxing units in the state. Fourteen of these appeals were from the county rates and eighty-two from townships, cities and towns. The State Board made reduction after hearings amounting to $555,720. It is apparent that the county boards of tax adjustment, with their powers to grant excess levies in cases of declared emergency afford a flexible feature to the operation of the law which enables it to work fairly satisfactory but Indiana cannot be said to have a rigid tax limit law. A new feature introduced in 1935 provides that all requests for emergency or additional appropriations must be referred to the State Board of Tax Commissioners for their approval. During the year 1935 the board considered requests for additional appropriations totaling $8,805,629 and approved $8,683,728.

The total taxes levied by the state and all local governments against real and personal property declined from $140 million in 1932 to $99 million in 1934 or about 29 per cent. The total valuation of property for taxation in the state declined from $5,166 million in 1929 to $3,673 million in 1934, a reduction of 29 per cent. The percentage reduction in Indiana was about the same as the reduction in other states which did not have tax limitation laws. It is doubtful if the one and one-half per cent tax limit law had any material affect on governmental retrenchment in Indiana as it seems perfectly clear that the real cause of the reduction of 40 million dollars in property taxes has been the reduction in valuation due to the depression.

The reduction in the state levy on property from .29 mills in 1929 to .15 mills in 1932 reduced the state revenues obtained from property taxes from fifteen million dollars to six million three hundred thousand dollars, and necessitated the development of new sources of tax revenue for state purposes. These new tax revenues were shared with the local governments. Three new laws were enacted to provide revenue for the operation of public schools from sources other than a real estate tax.

The state government apportions from the general fund to school districts not to exceed $600 per teaching unit. A teaching unit in grades 1 to 8 consists of 35 pupils in average daily attendance and in grades 9 to 12, 25 pupils in average daily attendance. The amount distributed in 1934 was $8,095,217. The principal source of this money was the gross income tax which yielded $10,387,131 in 1934.

The second new source of state school support was the excise fund a portion of which is apportioned semi-annually on the basis of the average daily attendance of all pupils attending school in grades 1 to 12 whose legal residence is in the corporation. The amount apportioned in 1934 was $1,762,588.

The third source of new school revenue was the tax on intangibles. A five cent stamp tax on each $20 or fractional part is required for each intangible such as notes, stocks, bonds, or mortgages. Ten per cent goes to the state general fund and the balance is apportioned to counties. The county retains one-fourth of the amount received and apportions the balance to schools on the basis of assessed valuation. In 1934, $750,530 was so apportioned to schools.

In addition, the schools received $3,956,316 from the State under previous acts, making a total of $14,564,655 received from the state for the support of schools during the year 1933-1934, or about one-third of the total current operating cost. This additional support enabled all schools to keep open a minimum term of eight months, to pay all teachers in full, and to close the year with a balance of $20,226,849 or an increase over the opening balance of $1,878,171.

The comparative costs of the schools of Indiana were as follows:

| | Current Operation Cost | Debt Service and Capital Outlay | Total Expenditures | Outstanding Bonded Debt and Temporary Loan |
|---|---|---|---|---|
| 1930-1931 | $57,667,426 | $14,719,771 | $72,387,197 | $63,945,000 |
| 1933-1934 | 42,194,708 | 9,913,880 | 52,108,588 | 51,147,492 |
| Reduction in three years | 15,472,718 | 4,805,891 | 20,278,609 | 12,797,508 |
| Per cent reduction | 27.2% | 32.6% | 28.1% | 20.0% |

The state shares with counties, towns, and cities the proceeds of the gasoline tax, excise tax, the intangible tax, and the building and loan taxes. In 1935 the counties received $8,182,510 and the cities and

towns $2,040,000 from the gasoline tax. The excise tax on beer and spirituous liquors went to the counties, cities, and towns and school districts of which the counties and cities received $1,002,729 and the schools $1,762,588. Twenty-two per cent of the intangible tax goes to the counties, ten per cent to the state and the balance to the schools. A small portion of building and loan taxes are apportioned to counties and cities.

All units of government reduced the amount of bonded indebtedness, between 1931 and 1934. Total indebtedness amounted to $199,034,000 in 1931 and this had been reduced to $167,074,746 in 1934. The amount of the bonded indebtedness and temporary loans of schools was reduced from $63,945,000 in 1931 to $51,147,492 in 1934. The amount of delinquent taxes and penalties has been increasing in recent years. It was $24,958,000 in 1934 and $28,401,657 in 1935.

Total disbursements of all units of government in Indiana were only 7.8 per cent less in 1934 than in 1929. Total disbursements were approximately $253 million in 1929 and $233 million in 1934. The high point was reached in 1930 when they amounted to $259 million and the low point was reached in 1933 when $210 million was disbursed. In 1932, the last year of the old system, they amounted to $249 million. The disbursements by units of government for selected years was as follows:

TOTAL DISBURSEMENTS FOR ALL UNITS OF GOVERNMENT,
STATE OF INDIANA, IN MILLIONS

| | 1929 | 1932 | 1933 | 1934 |
|---|---|---|---|---|
| State | $ 59.1 | $ 62.6 | $ 41.8 | $ 80.6 |
| Counties | 41.6 | 42.1 | 43.0 | 42.0 |
| Civil Township | 25.6 | 21.9 | 19.9 | 15.0 |
| Civil Cities | 45.7 | 52.9 | 46.4 | 39.0 |
| Civil Town | 4.4 | 4.3 | 3.7 | 3.6 |
| School Township | 32.4 | 28.3 | 24.1 | 22.7 |
| School Cities | 41.4 | 34.6 | 29.0 | 27.5 |
| School Towns | 2.7 | 2.7 | 2.1 | 2.0 |
| | 252.9 | 249.4 | 210.0 | 233.2 |

## MICHIGAN

In Michigan the tax limitation movement was largely sponsored and promoted by farmers and farm organizations as a means of securing a more equitable distribution of the tax burden. On three previous occasions attempts had been made by farm organizations to amend the Constitution to permit an income tax without success due to the opposition of urban voters who looked upon such moves as attempts to shift a portion of the tax burden to their shoulders. Finally it was decided to capitalize on the popular sentiment for tax reduction and urge tax limitation as a method of widening the tax base. The Michigan Farmer took credit for drafting the limitation amendment and promoting its

passage. The State Grange actively supported the movement altho the Farm Bureau remained neutral. Altho the State Association of Real Estate Boards took no official action on the matter, most local boards actively supported the measure which was submitted by initiated petition. The tax limitation amendment was opposed by the state tax commission, municipal officials, educators and teachers, parent-teacher organizations, women's clubs and the press of the state. The 15 mill limitation won approval by a narrow margin 671,124 for and 641,962 opposed. Eighteen of the 83 counties voted against the limitation and two-thirds of the cities were opposed to it. In the counties of Wayne and Kent (in which Detroit and Grand Rapids are located) large majorities were polled against the amendment. Essentially the movement was rural in character but it received concentrated support from certain areas of real estate exploitation in some of the larger cities.

The amendment provides for an overall limitation of 15 mills for each hundred dollars of assessed valuation with three exceptions: first, levies to retire obligations contracted prior to December 8, 1932; second, levies for municipalities operating under special home rule charters, and third, the maximum levy might be exceeded by two-thirds vote of the electors for a period of five years.

*Effect on Municipalities.*

Since all municipalities in the state had tax limits in their charters a court decision early established the fact that municipalities were excluded from the operation of the limitation. The municipalities were affected by the amendment only in case they voted to adopt the limitation by charter amendment. Of the seventeen cities which have voted on the proposal, eleven cities have decided to operate under the limitation and six have voted to keep free from such encumbrances. It is significant to note that the eight cities voting in 1934 cast on an average of 67 per cent votes "for" the amendment and 33 per cent "against" whereas the five cities voting in 1935 cast an average of 47 per cent "for" and 53 per cent "against" and the four cities voting in 1936 have all turned down the proposal by large majorities. An analysis of the votes cast for and against the amendment in the various cities indicates that the popularity of the limitation is declining and affords tangible proof that the educational campaign waged by the citizens in these cities has been effective in convincing the electorate of the undesirability of adoption of the limitation. The limitation has worked a severe hardship on the governments and school systems in the cities in which it has been adopted. When the tax rate for city government purposes is included within the 15 mill limitation, the school levy is very greatly reduced, and may be reduced to the minimum of four mills allowed by statute. The effect of such a reduction is, of course, disastrous upon the operation of schools and the state super-

intendent of Public Instruction reports that "should the schools receive the $25,000,000 now asked of the legislature, the school districts located in cities that have voted to place city tax collections within the 15 mill limitation will still have insufficient funds for a minimum program of nine months."

*Effect upon State Finance.*

During the six year period 1929 to 1934 the total assessed valuation for the state as a whole declined from $8.5 billion to $5.5 billion, a decrease of 35 per cent. The state levy on property in 1929 was 3.4 mills and produced $29.5 million; in 1932, the state levy produced $23.5 million. The first measure to be considered following the adoption of the 15 mill limitation was the reduction or abandonment of the state levy on property. In 1933 the legislature reduced the state levy to six-tenths of a mill which produced $3.5 million dollars and which was allocated to the two educational institutions, the State University and State College. In 1935 the state levy on property was abolished entirely. In order to replace the loss in revenue, a retail sales tax was adopted in June, 1933. Sales tax revenue was appropriated as follows: state emergency welfare relief fund, 12 million; general fund of state, 19 million; University of Michigan, $500,000; Michigan State College, $200,000; and the balance for school aid. The sales tax revenue the first year was $34,871,949 of which $31,700,000 was appropriated. For the year ending June 30, 1935, the sales tax produced $38,660,680. The new revenues derived from the sales tax replaced the loss in general property taxes levied for state purposes.

*Method of Allocating the 15 mill Tax.*

The machinery set up for the allocation of the millage to the various local units of government was a county tax allocation board composed of five members. Minimum rates were specified guaranteeing the counties three mills, townships one mill, and school districts four mills and the balance of the millage was divided by the county board. Any local unit that is dissatisfied with the final allocation of rates may appeal to the state tax commission for review and readjustment.

*Effect upon Schools.*

The schools are financed by the local school district levy on property and state aid distributed thru the Primary School Interest Fund on the basis of school census. The local school district levies have been reduced from four to eleven mills. Before the limitation was adopted the average school tax exceeded 15 mills in eleven counties and in one county it was in excess of 24 mills.

The Primary School Interest fund consists of a tax on the property of public utilities such as railroads, telephones and telegraph, etc.,

which are centrally assessed by the State Tax Commission and taxed at the average general property tax rate for the state, together with the proceeds of the inheritance tax, tax on foreign insurance companies, corporate organization fee and a few other minor sources. In 1931 the public utilities were assessed 408 million dollars and taxed at $13.2 million. In 1934 public utilities were assessed at $338 million and taxed in the amount of $9.2 million. The savings enjoyed by the large utilities thru the imposition of the 15 mill tax limitation amendment amounted to approximately $4.0 million of which $2.0 million was due to the decrease in millage tax rates resulting from the reduction in average state millage rate from 32.0 mills to 27.0 mills and about $2.0 million was due to the decrease in assessed valuation. The tendency for the average state tax rate to approach 15 mills as existing outstanding bonds are retired, will result in a further reduction or saving in the taxes imposed on public utilities. Total revenue of the Primary School Interest Fund decreased from $24 million in 1931-32 to $14 million in 1935.

In 1933 the legislature appropriated new state aid revenue to school districts not to exceed $15 million annually. Such funds were obtained from the retail sales tax in excess of specific allotments totaling $31,700,000 and from the excise taxes on liquor in excess of allocations totaling $1,102,000. In 1933-34 the schools received only half of their allocations. In 1935 the legislature appropriated from the general fund as state aid the sum of 36 million dollars for 1935-36, $37.4 million in 1936-37, and $38 million thereafter less the amount of the primary school interest fund which amounted to approximately $14 million. The amount of state aid for schools has been increased from $24 million in 1931 to $36 million in 1935-36 resulting in an increase in the proportion of public school revenue furnished by the state from 31 per cent to 53 per cent. Total school revenues declined from $107 million in 1931 to $74 million in 1934. The new legislation provides an equalization feature that guarantees a minimum program to all districts which equals $40 for each elementary child and $65 for each high school child in average attendance. The schools have been more seriously affected by the tax limitation amendment than any other unit of government. School terms have had to be shortened and teachers' salaries have been reduced. Rural teachers' salaries have been reduced to as low as thirty dollars a month. School financing has been shifted largely to the state with the result that it is now necessary to provide state funds for school districts which would previously have been able to support an educational program locally.

*Conclusion.*

Tax limitation has forced the abandonment of the state levy on property an undesirable step in that it tends to undermine the position

of the state tax commission in the administration of the general property tax. The tax base has been broadened only by the imposition of a retail sales tax, liquor tax and a tax on chain stores. It has not forced the adoption of a personal income tax but has erected another barrier to income taxation. If an income tax is held to be a tax on property it would appear that an income tax could not be levied in excess of 1½ per cent or 15 mills. Obviously these slight changes in taxation do not constitute tax reform. It precludes the possibility of borrowing to meet emergency needs or to take advantage of government loans for permanent construction. Since new debt must come within the 15 mills and this rate does not provide sufficient revenue for operation, all short term credit is at an end. Long term borrowing is practically impossible since the vote on an increased levy is only effective for five years and it requires a two-thirds majority vote. A pay-as-you-go plan program for capital improvements is equally impossible. Budget making becomes a difficult procedure since governmental units cannot learn their allocation of millage until budgets are submitted to the tax allocation board. It has forced schools into the position of demanding a greater share of state collected funds as the only way to increase services or of avoiding closing their doors. The Tax Policy League classes Michigan as one of the most backward states in tax legislation and cites it as "a sorry example of what happens when statutory and constitutional tax levies are dictated by minority groups in direct contravention of the interests of the many."[1]

The specific indictments brought against the state are, no income taxes, heavy sales taxes, tax limits in the constitution, heavy debt burdens, and inefficient and extravagant local government structure.

## NEW MEXICO

The original constitution of New Mexico limited the state levy to four mills except for the support of educational, penal and charitable institutions of the state in which case the state levy might not exceed ten mills, exclusive of necessary levies for the state debt. In September 1933 this section was amended to provide for a blanket limit of twenty mills on all real and personal tangible property. Necessary levies for public debt are excluded from the limitation and additional levies outside the limitation may be made when authorized by a majority of the electors of any taxing district.

The allocation of levy among the various taxing units is made by the state tax commission, which for nine years has possessed the power of examining local budgets and of revising and changing them. For the year 1934-35 the Tax Commission established the following rates: state, five mills; counties, exclusive of school rates, five mills; schools, six mills and municipalities, four mills.

1. Tax Policy League, November, 1935, p. 1.

The enactment of this limitation has resulted in a reduction in general property levies from $33.38 per thousand valuation in 1933 before the limitation became effective to $24.30 per thousand in 1934 or a decrease of 27 per cent. Total property taxes levied for the state and all local units were reduced from 9.5 million dollars in 1933 to $7.1 million in 1934.[1]

The property tax levies were distributed as follows:

| | 1933 | 1934 |
|---|---|---|
| State | 6.0 mills | 6.0 mills |
| County | 20.4 | 11.1 |
| Schools | 2.7 | 2.9 |
| Municipalities | 4.3 | 4.3 |
| | 33.4 | 24.3 |

Practically all of the reduction in levies was effected in the county levy which was reduced from 20.4 mills to 11.1 mills.

The reduced property tax revenue was replaced by the proceeds of a sales tax, a liquor stamp tax and the income tax. The available revenue for the operation of state and local governments has not been materially reduced. The total amount of funds budgeted for the actual operation of all state and local governments was $12 million in 1933 and $12 million in 1934. The amount derived from general property tax decreased from $8.8 million in 1933 to $6.5 million in 1934, the revenue from other tax sources increased from $3.3 in 1933 to $6.1 in 1934. The principal source of new revenue was the sales tax which produced $2.5 million and which was apportioned to schools.

The budgeted funds were distributed as follows:

| | State | County | Schools | Cities | Total |
|---|---|---|---|---|---|
| 1933 | $2,280,088 | $2,269,987 | $6,349,089 | $1,310,199 | $12,209,363 |
| 1934 | 2,190,515 | 2,352,134 | 6,747,200 | 1,386,386 | 12,676,434 |

All local units of government received slightly more funds in 1934 than in 1933.

The bonded debt of the state and local units amounted to $26,882,306 on June 30, 1934 and was distributed as follows: State, $10,979,183; Counties, $3,336,771; Schools, $5,878,950; and Municipalities, $6,687,400.

In view of the fact that the twenty mill limitation in New Mexico applies only to current operation and maintenance and all necessary levies for the payment of public debt are excluded from the limitation and the further fact that additional levies may be made outside the limitation by majority vote of the electors, the limitation has apparently not resulted in any serious impairment of governmental services. The principal new source of revenue imposed to replace the loss in

1. State Tax Commission, Tenth Annual Report, p. 19.

property tax has been the sales tax. The distribution of total tax levied on property is shown as follows:

| Year | Assessed Valuation in Thousands | Total Taxes Levied in Thousands | State Taxes in Thousands | County Taxes in Thousands | School District Taxes in Thousands | Municipal Taxes in Thousands |
|---|---|---|---|---|---|---|
| 1929 | $309.9 | $11,439 | $2,320 | $6,799 | $1,402 | $ 818 |
| 1930 | 332.3 | 11,536 | 1,893 | 7,177 | 1,505 | 961 |
| 1931 | 331.8 | 12,197 | 1,868 | 7,898 | 1,381 | 1,050 |
| 1932 | 315.1 | 10,818 | 1,713 | 7,036 | 1,155 | 914 |
| 1933 | 285.6 | 9,945 | 1,678 | 6,337 | 1,136 | 794 |
| 1934 | 291.9 | 7,761 | 1,689 | 4,007 | 1,220 | 845 |
| 1935 | 292.2 | 6,637 | 1,628 | 2,934 | 1,319 | 755 |

## OHIO

Ohio affords the outstanding example of the results of the adoption of a drastic tax limitation law. The "Smith One Per Cent Law" passed in 1911 fixed an aggregate limit of one and a half per cent for all purposes. Operating levies and certain debt levies were subject to the ten mill limitation but additional levies could be imposed by popular vote up to a total of fifteen mills. A county budget commission consisting of three elective county officials was created to apportion the available millage among the taxing districts.

This limitation was imposed to limit tax levies at the time when the state was shifting the basis of assessment from thirty per cent to one hundred per cent of full value. It was claimed that it would result in the more complete assessment of intangible wealth and thus shift a part of the burden from real estate to owners of intangible wealth and that it would secure the assessment of real estate at true value. Neither of these purposes were achieved. After the readjustment, intangibles paid a smaller portion of the total tax than previously and most of the counties were not reappraised between 1911 and 1926.

The effect of the law upon local finances was disastrous. Cities were forced to operate by issuing deficiency bonds, by funding deficits, by resorting to special assessments for current activities and by voting levies outside the limit. The pay-as-you-go method of financing had to be abandoned. All types of public construction, and even ordinary street and bridge repairs, which were formerly financed by taxation were forced to be financed by bond issues. Cincinnati ended every year from 1915 to 1921 with a heavy deficit; with the exception of one of these years Cleveland and Columbus did likewise and Toledo and Dayton had deficits in four of the six years. By 1921 school districts and municipalities had $39 million of deficiency bonds outstanding and in some cities such bonds ran as high as thirty or forty per cent of the total debt. Taking the cities of the state as a whole, deficiency bonds constituted more than fourteen per cent of the municipal debt.

R. C. Atkinson estimates that the total burden saddled on subsequent taxpayers during this decade of rigid tax limitation was about $100 million. In 1926 it required about one-half of the revenues collected by Ohio cities to pay debt services. Sinking fund requirements were commonly ignored, and sinking fund balances diverted to pay operating expenses. Bonds funds were likewise diverted. While tax limitation did severely check the growth of local revenues it failed to curb the rise of expenditures in any corresponding degree.

From 1912 to 1922, taxes of counties and municipalities increased 96 per cent rising from $1,158 million to $2,277 million while the indebtedness of counties and municipalities increased from $3,256 million to $5,694 million.[1]

Between 1919 and 1925 the limitation was somewhat relaxed. School districts in 1919 were given the right to submit extra levies for the approval of the electorate and in 1920 and 1921 cities also obtained this right. The 15 mill limit became a restriction only on levies without a vote of the people and no limit was imposed on the power of voters to authorize additional taxes for a period of not more than five years. By 1930 three-fourths of the school districts were relying on voted levies for part of their operating expenses. School districts were by far the most successful in obtaining the approval of additional levies and many communities acquired the habit of voting extra levies. Many cities were not so successful, Cincinnati regularly voted down extra levies with the result that pavements went to ruin and city services became disgracefully inadequate. Schools secured a disproportionate share of local revenues. The voted levies furnished a very unstable basis of financing especially in times of depression, because of the impossibility of securing popular approval regardless of their necessity.

Gradually the emphasis was shifted from tax limitation to debt limitation, from artificial restriction of levies to the requirement of sound financial procedures as a means of protecting the local taxpayers. Bond laws were enacted imposing strict limits in the amount and term of bonds and the use of serial bonds was required. Borrowing for current expenses was prohibited and a compulsory budget law was enacted in 1925.

In 1929 the statutory 15 mill limitation was placed in the state constitution and in 1933 an initiated amendment reduced the limit to 10 mills and became effective January 1, 1934. Municipalities operating under a charter which contains specific tax limits are exempt, also rates levied for service on prior debts are exempt. Additional levies may be made outside the limitation when authorized by a majority vote of the electors.

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1. Constitutional Tax Rate Limitation for Illinois, p. 33.

The proponents of the tax limitation measure maintained that it would force economy in state and local government, apparently ignoring the fact that the assessed valuation of the state had declined from $13,675 million in 1929 to $8,072 million in 1933 or 40 per cent and taxes levied had been reduced from $300 million to $181 million. In the face of this very substantial shrinkage in valuation the average state rate had not increased remaining at about 22 mills. About $175 million in delinquent property taxes were outstanding in 1933 when the voters adopted the amendment. At the same election the voters approved the inauguration of a system of old age pensions.

Several special sessions of the legislature were called to solve the problem of securing the additional revenues needed. In some cities the mandatory bond charges exceeded the 10 mill limitation while in other cities bond charges plus the mandatory minimum school levy of 4.85 mills would leave no funds available for operating expenses of cities or counties. A study showed that about 75 of the 110 cities could not legally levy any funds for operating expenses. The legislature repealed the law guaranteeing the 4.85 mills for schools and authorized additional tax levies and deficiency bonds payable outside the 10 mill limit when voted by the people. Deficiency bond issues were voted upon in seven municipalities in 1934 and carried in five cities and were defeated in two cities and four cities had special elections in 1935. In Dayton and Zanesville the deficiency bond issues were defeated. Dayton had no other alternative except to stop service. Beginning September first the city closed three fire engine houses, dismissed 150 employees, turned out street lights after midnight and imposed a 27 per cent salary cut, garbage and refuse collections were further reduced and the city faced a deficit of $200,000 in 1935 which was financed by another deficiency bond issue, fortunately approved at the November election.

Columbus receives one mill for operation of which 9.6 per cent must go to police and fire pensions leaving 0.4 mills or $138,000 from property tax for operation. The voters refused on February 18, 1936 to approve the placing of three mills outside the 10 mill limitation which will reduce the city's budget for operating expenses $900,000 under last year's when the budget was balanced by a deficiency bond issue of $746,000. About 710 employees were dismissed resulting in a 50 per cent reduction in police and fire forces. Eight fire stations were closed and four police radio cruisers taken from the streets. Refuse collection will be stopped altogether and garbage taken only once a month.

Akron in 1936 reduced its debt levies inside the limitation more than $1,285,000 below necessary requirements, as certified by the sinking fund commission, in order to furnish operating funds. Refunding bonds will be issued to make up the deficit.

Toledo had only $2,012,000 in revenue in sight for its general operating department in 1935. It spent $3,476,000 in 1934 which would indicate the necessity of a 42 per cent reduction in all operating departments.

A study of the situation in the eight largest cities of Ohio reveals the fact that while revenues have been declining expenditures for operation and maintenance have remained about the same. The combined data for eight cities is as follows:

| | Revenues (in millions) | | Expenditures (in millions) | | |
|---|---|---|---|---|---|
| | Revenue from General Property | Total Revenues | Operation | Debt Service | Total |
| 1930 | $53.2 | $91.8 | $51.4 | $35.6 | $87.0 |
| 1933 | 37.3 | 73.5 | 52.2 | 31.9 | 84.2 |
| 1934 | 42.1 | 72.6 | 48.2 | 28.2 | 76.4 |

Cincinnati is considered the best governed city in Ohio and perhaps in the United States in recent years. Expenditures have been reduced from $13.4 million in 1932 to $11.7 million in 1935 or a reduction of 12 per cent. Per capita cost declined from $29.57 to $25.23 or $4.34. This reduction probably represents the maximum reduction possible due to economical and efficient management if current services are maintained. Further economies can only mean cutting off of functions of government.

Ohio cities have been forced by the tax limitation amendment to operate on deficiency bonds, a most expensive method of financing and a plan which charges taxpayers tomorrow for the cost of government today. In large part the operation of local governments is being carried by deficiency bonds issues disguised as refunding issues.

The reduction in taxes levied by state and local governments due to the ten mill limitation was estimated at $40 million. To replace the property taxes lost by the limitation the state enacted a sales tax which went into effect January 1935. During the first 48 weeks of operation from January 27 to December 31, 1935 total sales tax collections amounted to $47,848,866. Of this sum the state appropriated $18,276,500 divided as follows: for old age pensions, $7,875,000; poor relief, $4,500,000; county poor relief bond fund, $4,000,000; for cost of administration, $1,901,000, leaving a balance of about $28 million for replacement purposes. This was apportioned as follows: sixty per cent to public schools and forty per cent to local governments. The school received $16,846,490 which was apportioned to each school district on the basis of average daily attendance. The local government received $11,230,994 which was distributed on the basis of average assessed valuation for the five years 1929-1933, counties received 35.5 per cent, cities and villages, 60 per cent, and townships 4.5 per cent. The tax commission estimates the reduction in property tax revenue

in 1934 as compared with 1933 for current operation in three classes of taxing districts due to the ten mill limitation after taking into account new levies voted by the people, to be as follows: counties $4,135,000 or 16 per cent; cities $2,905,000 or 13 per cent, and city school districts $13,210,000 or 32 per cent. The total amount of loss in real property revenues for all taxing districts not replaced by sales tax is estimated to be about $9.6 million.

*Conclusion.*

No doubt many citizens voted for the tax limitation in the belief that it would result in reducing their taxes. Most of the current publicity in newspapers and magazines gives the public the impression that if governments could be efficiently operated, and waste and inefficiency removed, millions of dollars could be saved and large reductions could be made in taxes. Ohio's experience under tax limitation proves the fallacy of this argument. In spite of most vigorous attempts to hold expenditures down and to operate within the limitations, expenditures have kept pace with other states and continued to increase from year to year. All possible saving arising from economies having been realized during the depression period and the governments are now confronted with the need of discontinuing services if further reductions are insisted upon.

While limitation did not result in reducing the total volume of taxation it did shift a portion of the burden from real estate to other sources of income. It shifted the burden of local government to a poorer group of taxpayers. The citizens without property and the small home owners have been assessed to pay in sales taxes what has been saved by the large real estate holders and the corporations in property taxes.

Furthermore, there has been a shifting from local support of local government by local taxation to state support of certain functions formerly considered functions of local government. This raises certain fundamental questions. It means that the large cities will pay more in replacement taxes than they receive back through the distribution of state funds. The eight largest counties of Ohio with 54 per cent of the population paid 64 per cent of the sales tax but they received back only 80 per cent of the amount they paid. Franklin County, of which Columbus is the county seat, paid $3,621,720 in sales taxes and received back $2,508,626 or 70 per cent of the amount collected and yet Columbus found it necessary to vote additional property taxes in order to meet their normal standard operating expenses. The assumption by the state of the burden of supporting local functions may mean a large increase in the total amount of money expended because the legislature is controlled by the representatives from the smaller counties and it will be natural for the majority to seek to increase taxes

and expenditures which are apportioned to their constituents at the expense of others. They will want the state to take care not only of their schools, roads, and poor persons but many other local functions may become state supported functions.

"City real estate owners who shouted for a shifting of the real estate tax burden to another class of property will no doubt find in the form of the new tax that they are not only paying for the relief afforded their own real estate but for the relief given real estate in other counties where the replacement levies produce nothing."[2]

Tax limitation tends to destroy home rule in the long run. When the state takes over the financing of local governments, the policies of the local government will be dictated largely from the state capital.

Finally the full effect will not be known for many years. "Meanwhile it is a practical certainty that millions of operating deficit will be funded either by the issuance of deficiency bonds or the refunding of maturing indebtedness and the cost of present public services will be passed on to the next generation."[3]

## OKLAHOMA

The original constitution of Oklahoma adopted in 1907 incorporated a tax limitation of 31.5 mills for all purposes, exclusive of debt requirements, and established maximum limits for each taxing unit as follows: state, 3½ mills; county, 8 mills; township, 5 mills; cities, 10 mills; and schools, 5 mills. Additional levies could be levied up to 43½ mills.

More drastic tax limitation provisions were incorporated in a constitutional amendment adopted August 15, 1933. This prohibits any property tax levy by the state government. It limits total levies of the three local units, counties, cities, and school districts to 15 mills. This does not include sinking fund levies and there are two exceptions in that the county may levy an extra 2 mills for negro schools and the school district may increase its levy by 10 mills on majority vote of the electors. This makes possible a total property levy of 27 mills. This amendment was adopted by a vote of 183,623 to 20,739. The general consensus of opinion is that real property is assessed at about 45 per cent of full value which would mean a maximum levy limit of about 12 mills on the full value of the property.

The idea of constitutional tax limitation was not new in Oklahoma but had been in continuous operation since 1907. The reductions in the maximum limits were apparently made in an attempt to afford relief to property owners and to curtail government expenditures.

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2. C. S. Dargusch, Vice Chairman Tax Commission of Ohio, "Ohio's Fiscal Crisis", p. 14.
3. R. C. Atkinson, Property Tax Limitation Laws, p. 74.

For several years prior to the adoption of this more drastic amendment the financial situation had been serious. The restricted levies had already resulted in the development of a comprehensive system of state collected taxes and their apportionment among the local units and in the accumulation of large amounts of funded and floating indebtedness. The state collected and shared with the local units the following taxes: income, gasoline, motor vehicle, gross production tax, and tax on insurance companies. In 1931 an increase of one cent was made in the gasoline tax largely to supply money for unemployment relief and a corporation income was enacted and one-fourth of the revenue was used to reduce the state property levy and three-fourths to reduce local school levies. These were the only major changes made in the fiscal system during the depression until the sales tax was adopted in July 1933. Efforts had been made in two successive legislatures to increase the income tax rates and two initiated measures embodying increased rates had been defeated at the polls.

As the depression deepened, assessed valuation declined, tax delinquency increased and state and local indebtedness mounted. Assessed valuation dropped from $1.7 billion in 1929 to $1.2 in 1932, or 31 per cent. The total general property tax levied for local government in 1933 was $51 million dollars of which only $24 million was collected. The delinquency in property tax was $27 million. The gross debt of the state and local governments in 1932 amounted to $248 million or about 20 per cent of the assessed valuation of the state. A major problem which confronted the legislature of 1933 was to devise some way of lightening the huge load of state and local unpaid warrants outstanding.

The state had accumulated a deficit of $13 million and the legislature of 1933 funded the outstanding state warrants by the issuance of $13 million in six year notes. These were financed by diverting 40 per cent of the gasoline tax which had previously gone to the state highways.

The total bonded debt of counties and townships outstanding on June 30, 1933 amounted to $45 million. In addition they had unpaid judgment amounting to $1.2 million. "Before 1931 it was a common practice of local officers to exceed the budget appropriation for the purchase of supplies, materials, and equipment and in the letting of contracts. Purchases were made and contracts let without the authorization required by law and a judgment was then obtained by the seller or contractor against the county. . . . Since no sinking fund levies fall within the tax rate limitations, there was no evident limit to which judgments could be piled up against a county, provided they could

be obtained in the courts."[1] These bond and judgment requirements represented an average levy of nearly four mills in 1932.

"In 1933 the legislature created in each county an emergency investment fund to which is apportioned 50 per cent of the receipts from the gasoline tax and the automobile license all of which previously went to the highway fund."[2]

The school indebtedness consisted of $45 million of bonds issued for school buildings and $18 million of non-cashable school warrants. "A large number of teachers have been compelled to wait for months in order to receive their pay or cash their warrants at a discount ranging from 6 to 50 per cent."[3]

When the retail sales tax was enacted all the revenues were appropriated to the schools as follows: 50 per cent to the counties for school on a per capita enumeration basis to be used for the reduction of the local school levies on property; 17 per cent (but not to exceed $1 million a year) to be allocated to the state common school equalization fund; 30 per cent to counties on an enumeration basis to be used to pay outstanding school warrants and bonds and 3 per cent for administration of the tax. The tax yielded in 1934 $3,825,000.

It is estimated that about 25 per cent of all local budgets is required for debt service. The net results of Oklahoma's experience with constitutional tax limitations were summarized by the Brookings Institution report as follows: first "it has established an effective limitation upon tax levies", second, "it has undoubtedly only shifted a part of the pressure of revenue needs from taxes to borrowing", and third "the limitation upon property levies appears to have contributed powerful pressure toward bringing about the adoption of other forms of taxation. " "From the standpoint of sound taxation this is a wholesome result. Indeed it is the one rational justification for rigid tax limitation provisions. Perhaps the only further comment necessary is that it is a pity that all this has to be secured at the cost of the otherwise disturbing and confining results of constitutional tax limitation."[4]

The total receipts for state government rose from $33 million in 1928-29 to the peak of $42.8 million in 1930-31 and declined to a low of $34.3 in 1932-33. In 1934 they rose to $41.2 million due to an increase of $1 million in gross production tax, $3.8 million from the new retail sales tax and $3.4 million increase in grants from the federal government. The amount allocated to local government increased from $6.9 million in 1933 to $10.7 million in 1934.

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1. A Report on a Survey of Organization and Administration of Oklahoma by the Brookings Institution, 1935, p. 308.
2. Ibid. p. 312.
3. Ibid. p. 32.
4. Ibid. p. 435.

The major sources of state revenues and the amount allocated to local governments its given as follows for the year 1934.

| | Total | Amount allocated to local government | Distribution |
|---|---|---|---|
| Taxes— | | | |
| Gasoline tax | $10,520,300 | $ 2,499,549 | 24.5% to county highways. |
| Gross production tax | 4,828,712 | 1,638,675 | 10% to county roads, 10% to schools. |
| Sales tax | 3,824,855 | 2,735,062 | 97% to schools. |
| Motor vehicle tax | 3,048,310 | 1,737,748 | 57% to counties of which 14.25% goes to city streets. |
| Income tax | 1,729,916 | 902,068 | 71% to schools. |
| Insurance Company | 743,224 | 180,120 | Firemen's pensions. |
| Beverage | 386,519 | 225,581 | 95% to schools. |
| Corporation license | 677,246 | | |
| General property tax | 3,134,695 | 466,067 | |
| Inheritance tax | 144,512 | | |
| All other | | | |
| | 29,865,004 | 10,384,870 | |
| Other revenues | 11,382,308 | | |
| Total | 41,247,313 | | |

In 1935 the legislature increased the income tax rates, the gross production taxes were increased from 3 per cent to 5 per cent of gross value on oil and gas produced and the inheritance tax rates were graduated from 1 per cent to a maximum of 10 per cent and a cigarette tax was imposed to be effective only to June 30, 1936. Total state receipts are undoubtedly greater today than at the peak period in 1930-31.

*Effect Upon Schools.*

The sources of school revenue consist of the local levies on property, state collected funds allocated on a per pupil basis, and a smaller amount contributed by counties and the federal appropriations for Indian tuition and vocational education. In 1935 the total common school revenues amounted to $21.5 million of which $11.4 million or 53 per cent was obtained from local levies on property, $8.3 million or 39 per cent from state sources, $1.3 million from county sources, and $.5 million from federal sources. The total cost of common schools dropped from $32.0 million in 1929-30 to $21.5 million in 1935 or a decrease of 32.8 per cent. The proportion of school revenue contributed by property taxes decreased from 81 per cent to 53 per cent during this period and the amount contributed by the state increased from 10 per cent to 39 per cent. The state collected funds allocated to schools were derived largely from the sales tax, income tax and gross production tax.

*Effect Upon Municipalities.*

In 1932 the revenue receipts of municipalities amounted to $23.2 million of which $13.3 million or 57 per cent was derived from general property taxes. In 1933 total revenue collected had decreased to $15.7 million of which $5.3 million or 34 per cent was obtained from the general property tax. About one-third of municipal revenues are obtained from public utility enterprises and one-third from miscellaneous revenue. The only state collected taxes received by the municipalities are 8 per cent of the motor vehicle license which goes to the street and alley fund of cities. The municipalities have not participated in the apportionment of the new state collected taxes. As assessed valuation has declined the revenues of municipalities have declined and they have been confronted with the problem of balancing municipal budgets without any aid from the state. Local levies have continued at a high level. Municipalities with a tax rate higher than $50 per $1,000 numbered 241 in 1932 and 280 in 1933.[5]

The following table shows the money returned to counties by the state for roads and schools for the years 1933 and 1934.

| | 1933 | | 1934 | |
|---|---|---|---|---|
| | Roads | Schools | Roads | Schools |
| Gasoline tax | $2,380,802 | $ | $2,504,502 | $ |
| Gross production tax | 582,923 | 582,923 | 785,168 | 785,168 |
| Motor vehicle license | 1,869,290 | | 1,728,870 | |
| Beverage tax | | | | 652,421 |
| Sales tax 50% operation | | | | 1,901,226 |
| Sales tax 30% bonds | | | | 1,140,736 |
| Income tax | | 882,651 | | 902,068 |
| ¼ mill property tax | | 350,456 | | 215,175 |
| State school fund | | 994,619 | | 1,171,567 |
| ¼ mill property tax | 341,591 | | 233,011 | |
| State aid to weak schools | | 1,491,009 | | 1,412,630 |
| Federal aid to weak schools | | | | 1,170,250 |
| | $5,174,606 | $4,301,657 | $5,251,551 | $9,351,341 |

## WASHINGTON

In 1932 an initiative measure, known as the Forty Mill Tax Limit Bill was adopted by a large popular vote, became effective in 1933 for tax collection in 1934. The maximum limit upon general city property was forty mills and twenty-five mills upon rural property. The assessed valuation is legally presumed to be fifty per cent of true value, but in practice is only twenty to thirty-five per cent of true value. This measure fixed a maximum levy of five mills for the state, ten mills for the county, ten mills for school districts, and 15 mills for cities. It further provided that an additional levy may be made to meet interest and principal of outstanding debts obligation and any unit of govern-

5. Haig and Shoup, The Sales Tax in the American States, p. 757.

ment might exceed the limit by a sixty per cent favorable vote. In 1934 another initiated measure was passed by a very close vote which was designed to correct the previous measure by bringing all levies for future debt within the millage limit and also to continue the limit law for two more years. This measure reduced the state levy from five mills to two mills and brought road districts, previously untouched, under a limitation of three mills.

The maximum levies fixed by these two initiative measures were as follows:

| | Initiative No. 64 Enacted Nov. 1932 | Initiative No. 94 Enacted, 1934 |
|---|---|---|
| State | 5 mills | 2 mills |
| Counties | 10 mills | 10 mills |
| School Districts | 10 mills | 10 mills |
| Municipalities | 15 mills | 15 mills |
| Road Districts* | | 3 mills |
| | 40 mills | 40 mills |

*The statutory levy for road districts prior to 1934 was 10 mills.

The assessed valuation of property decreased from $1,250 million in 1929 to $965 million in 1934 or 22.9 per cent. Had there been no tax limitation measure adopted a corresponding reduction in property taxes would have taken place resulting in a decrease in total property taxes levied from $81,094,000 in 1929 to $62,524,000 in 1934 or a reduction of $18,570,000 in property taxes. As a matter of fact the actual decrease in property tax between 1929 and 1932 before the tax limitation measure became effective was $14,102,000 or 17.5 per cent. Since the total property tax levied in 1935 was $42,726,000 it seems apparent that the tax limit law was responsible for a further reduction of about twenty million dollars in property taxes.

The state had been levying a tax on property of ten or eleven mills of which about 60 per cent or seven and one-half million dollars was required by the state school fund to pay $20 per census child and the county had been levying enough to contribute $10 per census child. The reduction in the state levy to 5 mills made it necessary to obtain additional funds for this purpose. An income tax adopted by initiative petition had been declared unconstitutional. The legislature enacted a classified multiple turnover tax levied on gross income, gross proceeds of sales or value of products and allocated the entire net revenue to the support of common schools. This tax yielded $5,036,467 during the first year of operation. The contribution of the state to common schools was increased about two-thirds and the counties contribution was decreased about ten per cent. The method of apportionment was changed from the per census child basis and the new apportionment act passed in 1933 provided that the state should raise not to exceed twenty-five cents per pupil per attendance day and the counties should raise five

cents per pupil per attendance day. The legislature limited the appropriation of state funds for common schools to ten million dollars a year for the years 1934 and 1935 and to approximately fifteen million dollars a year for the year 1936 and 1937. This made it possible to raise and distribute approximately sixteen cents per pupil day for the years 1934 and 1935 and twenty-two cents in 1936.

The business turnover tax was of a temporary and emergency nature and expired June 30, 1935. The legislature of 1935 enacted an omnibus tax measure including a 2 per cent retail sales tax; business occupation tax; compensating tax; public utility tax; admissions tax, liquor tax, tax on conveyances, radios, fuel oil, cigarettes and inheritances. The revenue was allocated as follows: support of schools (common 58.5 and higher learning 4.5) 63.0%, unemployment relief 17.9%, and general state fund 19.1%. Payments for old age pensions, a new state burden, were to be made from the general fund. During the first six months ending October 31, 1935 this act yielded $8,830,645. The Tax Commission estimates a yield of eighteen and a half million dollars from this act for 1936.

In 1933, three cents of the gasoline tax were allocated to secondary roads, formerly county roads, in lieu of former road and bridge fund levies, which were abolished. The state also assumed the counties burden of supporting the unemployed, financing the same by a $10,000,000 bond issue.

*Effect Upon the State Government.*

The loss in state revenue due to reduction of the state levy on property from eleven mills in 1933 to three mills in 1936 was restored by the development of new taxes and the floating of a bond issue for emergency relief. Total state receipts rose from $33,920,132 in 1933 to $49,866,045 in 1934 and total disbursements increased from $40,244,602 in 1933 to $45,357,393 in 1934. The assumption by the state of a larger share of the cost of common schools and the emergency relief program explained the increase in state disbursements. The state debt increased from $6,950,000 as of October 1, 1932 to $16,150,000 as of June 30, 1934. State taxes uncollected as of June 30, 1934 amounted to over ten million dollars.

*Effect Upon Counties.*

The hardship which counties would have suffered by reason of reduction in county revenues due to the limitation of ten mills was relieved in three ways: the road and bridge funds of counties levied on property were abolished and these funds were financed by the gasoline tax; the county school levy for common schools was lowered; and the state assumed the responsibility of financing old age pensions, formerly a county function, and also assumed the larger share of

unemployment relief. Thirteen of the thirty-nine counties were not affected by the 10 mill limit, an equal number were slightly affected and a dozen counties were faced with serious financial difficulties. The counties which had large welfare costs, heavy warrant, and bonded indebtedness and low valuations were most seriously affected.

*Effect Upon Schools.*

The school districts were the least affected of any of the local units of government. Their levy limit remained unchanged at ten mills but the tax limit law made it more difficult to vote special levies, beyond the limit as was commonly the practice in previous years. The additional millage must be authorized by a three-fifths vote and at least 50 per cent as many votes be cast as were cast for governor at the last general election. All new building costs must be met by either a bond issue or a tax levied for the purpose, both of which are a charge against the property of the local district. New bond issues must be retired and the interest paid out of the ten mills allotted to school districts.

The schools were aided materially by the new state taxes. They receive fifty-eight and one-half per cent of the omnibus tax measure enacted in 1935. The state apportionment in 1935 and 1936 reached its highest level amounting to $10,803,059 in 1935 and $13,376,440 is estimated for 1936. The local district school taxes levied on property decreased over ten million dollars between 1932 and 1934. The following table shows the total cost of public school education in Washington including operating expense, interest and capital outlays and the source of the funds.

| Year | From State Funds | From County Funds | From District and miscellaneous Funds | Total Expense |
|---|---|---|---|---|
| 1929 | $ 8,284,130 | $4,059,660 | $20,963,043 | $33,306,833 |
| 1930 | 8,318,660 | 4,091,337 | 20,835,785 | 33,245,700 |
| 1931 | 7,620,331 | 3,790,366 | 22,135,332 | 33,546,029 |
| 1932 | 6,945,186 | 3,312,221 | 20,174,977 | 30,432,384 |
| 1933 | 6,836,745 | 3,202,962 | 14,025,996 | 24,065,702 |
| 1934 | 9,129,827 | 2,884,061 | 9,800,827 | 21,814,716 |
| 1935 | 10,803,059 | | | |
| 1936 | 13,376,440 | | | |

"Approximately 75% of all districts of the state are now on a cash basis as against a heavy warrant indebtedness of five years ago. The per capita cost for public school education covering a decade and a half has not been lower in any one year than the actual per capita cost during the present school year." Source: Bulletin of State Department of Education.

The state higher educational institutions are allotted on a percentage basis the proceeds of the entire 2 mills now levied by the state on property and these institutions receive four and one-half per cent of revenue from the new omnibus tax measure enacted in 1935.

*Effect Upon Cities.*

The municipalities were more seriously affected by the tax limit law than other local units because they shared to only a very slight extent in the new state revenues and they have been unable to offset the loss in property tax revenue by developing new local sources of revenue. The 1929 levy for all cities and towns in the state aggregated nineteen million dollars. This had been reduced to fourteen million in 1932 or 26 per cent. The enactment of the fifteen mill limitation has caused a further reduction to ten million seven hundred thousand dollars in 1934 or a reduction of 46 per cent since 1929. During 1934 seventy per cent of the municipalities were levying up to the fifteen mill limit for current expenses and thirty per cent were levying below fifteen mills and could therefore be classed as unaffected. The municipalities in 1935 secured about one and a half million dollars of gasoline tax funds for use on city streets and a small share of liquor profits amounting to one half million dollars was allocated to cities in 1935. Cities have enacted business license ordinances and special utility license taxes and transferred earnings of municipal enterprises to finance the general government operations, but these have been inadequate to make up the loss sustained in lower property taxes. Drastic reduction in budgets have been effected, the number of employees have been reduced fifteen per cent, salaries have been reduced and essential functions neglected. The current debt of cities appears to be increasing. Deficit financing, padded revenue estimates and bonding for current expenses have resulted.

*Conclusion.*

The reduction in property taxes caused by the tax limit law did not result in a decrease in the cost of government. Between 1929 and 1932 property taxes had decreased 17.5 per cent without any tax limitation, largely as a result of the depression and reduced valuation. The decrease in property taxes directly traceable to the limitation act amounting to about twenty million dollars was offset by new taxes. The omnibus tax bill it is estimated will produce about eighteen million dollars and liquor profits will yield about two and a half million dollars. The net result has been therefore not a reduction in the cost of government but a shifting of the tax burden from property to other sources of wealth and income.

The state assumed a larger share of school support and took over certain county functions such as construction and maintenance of county roads, old age pensions and unemployment relief. Schools and roads were given relief but municipal governments have been starved, and are still facing serious financial conditions. The sole contribution made to tax reform was the imposition of a retail sales tax and various business and occupational taxes. The income tax has not been imposed and as a result the major portion of the wealth of the state remains

untaxed. No fundamental changes in the form and structure of government designed to secure real economy and efficiency in operation have resulted. Such minor changes as have been effected could have been effected without tax limitation and its attendant hardship, as has been done in many other states without tax limitation.

## WEST VIRGINIA

The adoption of the tax limitation in West Virginia was an outgrowth of the depression, resulting from declining valuation, heavy tax delinquencies, and high tax bills due partly to the heavy burden of debt and partly to great relief expenditures. In 1932 the total indebtedness of the state and its local subdivisions amounted to more than $151 million of which $86 million was state indebtedness largely issued for highway purposes and $65 million was the indebtedness of counties, schools, and cities.

A special session of the legislature which met in July 1932 for the principal purpose of reducing expenditures and restraining taxing authorities submitted a constitutional tax limitation amendment to the voters. This was adopted by a seven-to-one vote in November 1932.

This amendment classified property into four classes and fixed a maximum levy for each class. On Class I, which included tangible personal property employed exclusively in agriculture and intangible personal property such as notes, stocks, bonds, and money, the maximum rate was fifty cents per hundred dollars. On Class II, which included all farms and residential property owned and occupied by the owners, the rate was one dollar per hundred. On Class III, which consisted of all real estate and personal property situated outside of municipalities exclusive of Classes I and II, the rate was one dollar and fifty cents and on Class IV, which consisted of all real and personal property situated outside of municipalities exclusive of Classes I and II, the rate was two dollars per hundred dollars assessed valuation. It permitted increased levies above the maximum rates specified when authorized by sixty per cent of the qualified electors, such increase to continue for three years. The legislature was given authority to levy a graduated income tax and the state property tax for general purposes was limited to one cent per hundred dollars of assessed valuation except levies for debt charges.

The amendment contained no provision concerning debt charges on outstanding indebtedness of local units. It was apparently the intention of the sponsors that the tax limitations would apply only to levies for current expenses. This omission caused grave difficulties later on when the Supreme Court decided that levies for debt service must come with the limitation and several special sessions of the legislature were necessitated before the matter was finally settled. In the meantime local governments were thrown into the greatest confusion

and in some cities was practically suspended. Following the decision of the Supreme Court that levies for debt service must fall under the limitation, an extraordinary session of the legislature was convened in November 1933 and enacted a law which provided that the state could assume payment of local debts and thus leave the local levies for current purposes. The Supreme Court declared that this act was unconstitutional on the ground that the constitution expressly forbids the state from assuming local debts. Another special session was called and an act was passed which provided that seventy per cent of the limited levy should be used for current expenses and thirty per cent for the payment of debt service. This act was upheld by the court in February 1934.

*Effect Upon State and Local Finances.*

In 1929, the first year of the depression, the assessed valuation of the state was $2,033 million and $54 million of taxes were levied on general property. In 1932, the last year under the old system valuation had been reduced to $1,671 million and taxes levied had declined to $43 million, a decrease of 20 per cent.

The total amount of money which could be levied upon property under the constitutional limitation was $27 million of which about $7.5 million was necessary for debt charges. This meant a reduction in revenue of the counties, schools, and cities since the state levy on property amounted to only $3.0 million out of the total levy of $43 million in 1932. The ultimate effect upon the schools was to reduce the revenue available for current expenditures from $23.8 million to $8.8 millions. With local revenue cut in half or more the legislature was confronted with the demands for new replacement revenues. Schools and roads simply could not be maintained by taxation on property and the functions of county and municipal government were seriously crippled. The legislature proceeded to impose new indirect taxes and to make far reaching changes in the structure and functions of local government.

The gross sales tax rates were materially increased and a system of franchise taxes imposed upon railroads. The revenues derived from the gross sales tax or business occupation tax as it is designated increased from $1.6 million in 1933 to $8.6 million in 1934. The theory upon which these rates were determined was to require business to pay in sales tax the amount saved thru reduction in property levies. A consumers' sales tax produced $1,076,343 in 1934. A new personal income tax produced $592,867 in 1934, a beer tax and medicinal liquor tax produced $630,000. These indirect taxes produced about eighteen million dollars of additional revenues. The estimated yield for 1935 was as follows: consumers sales tax, $7.0 million; business occupation or gross sales tax, $6.5 million; railroad privilege tax, $1.5 million;

surtax, gross sales and privilege tax, $3.2 million; gross and net income utility tax, $750,000; personal income tax, $800,000; and beer and liquor tax, $900,000.[1]

The state inaugurated the county unit of school administration and assumed control and maintenance of all county and district roads. State appropriations for local schools were increased from about one million dollars in 1932 and former years to eleven and one-half million dollars annually. Secondly, roads were placed under the control of the state highway commission for the purpose of relieving the counties of the burden of their maintenance and construction and an annual appropriation of about two million dollars was made out of the state treasury.

Between July 1930 and July 1935 the bonded debt of counties, districts, and municipalities was reduced from $78 million to $58.7 million, a reduction of $19.5 million in five years.

West Virginia's experience with tax limitation demonstrated that the cost of government could not be cut in direct proportion to the reduction in property taxes. What was lost in property taxes was made up thru indirect taxes.

"State and local government combined is spending within a few per cent of what it spent in the recent past, and this in the face of the fact that administration, legislature, and press have carried on an unceasing campaign for reduced expenditures."[2]

*Effect Upon Schools.*

The county unit system of school administration abolished the 398 school districts and made the county the unit, for taxation and administration; there are now only 55 school districts. The total amount expended for education during the last year under the district system was $23,258,924; the amount expended during the first year of the county unit was $18,690,214, making a reduction of $4,568,710. This was accomplished in spite of an increase in school children and an increase of twenty days in average length of the school term. The amount contributed by the state during the year 1933-34 was $10,148,000. The state's contribution increased from five per cent to fifty-three per cent of the total cost. The number of teachers was reduced from 16,282 to 15,340 or eleven per cent. An increase occurred in the cost of transportation altho the county system was more economically operated. In one county under the contract system the county paid $53,000 for transporting 2,100 pupils. Under county control the cost was $32,790 for transporting 2,670 pupils. High school enrollment was increased through transportation provided at public

1. Annual Financial Report, 1934. p. 37.

2. Sly, John F. "The By Products of Tax Limitation in West Virginia," National Municipal Review, November, 1935, p. 614.

expense; 38 small high schools were eliminated and the pupils transferred to larger high schools; about 15,000 elementary pupils were transported to larger schools with additional school advantages. All schools were maintained for nine months. A considerable part of the saving effected was due to the low salary schedules established under the new system. The basic minimum rates for elementary teachers ranged from $495 to $810 and this increased to a maximum of $675 to $990 for teachers with eleven years or more service. The basic minimum rate for high school teachers ranged from $720 to $990 and increased to a maximum of $900 to $1,170.

A comparison of the expenditures in five main items of the school budget is given for the years 1931-32 and 1933-34 as follows:

| | 1931-32 | 1933-34 | Percentage |
|---|---|---|---|
| Elementary teachers | $11,842,789 | $ 9,760,179 | 82 |
| High school teachers | 6,984,314 | 4,368,648 | 62 |
| Elementary maintenance | 2,482,211 | 2,796,459 | 112 |
| High school maintenance | 2,260,888 | 1,606,999 | 71 |
| Buildings | 1,615,751 | 346,360 | |
| Total | $25,185,952 | $18,879,345 | |

Since the number of high school teachers was not reduced at all but slightly increased the reduction in high school teachers' fund is due almost entirely to cuts in salaries of teachers and principals.

*Effect Upon Municipalities.*

The total taxes levied by municipalities on general property were $5,087,571 during the last year before tax limitation and $3,983,461 during the first year under the limitation. In 1935 total taxes levied amounted to $4,237,614. There was allocated to the municipalities one-fourth of the total tax rate on the different classes of property.

"Cities crushed under debt burdens that had first claim on all local levies, lobbied (with the most modest results) through three additional sessions of the legislature to secure part of the state gasoline tax for their streets and alleys, to increase business license taxes, to levy against public utility rates and to lay consumers' sales taxes."[3]

A few cities had insufficient revenue even to meet debt charges leaving nothing for current operating expenses. A study of the actual levies made by 104 cities in 1934-35 showed that "eleven had levies below the authorized maximum, twenty-seven used the full allowance and the remaining sixty-six were compelled to levy in excess of the limitation amendment."[4] Ten cities benefited from utility earnings.

In Morgantown, municipal employees temporarily volunteered their services without pay. In Wheeling, all city employees were discharged with the exception of those in the water department which

3. Ibid. p. 612.
4. National Municipal Review, September, 1935, p. 483.

was self supporting. In Clendenin, the police force was dismissed and street lights shut off. Fairmont reduced appropriation for police, fire and street department forty per cent and discontinued those for the band and library. Bluefield attempted to meet an apparent deficit by levying a $5.00 capitation tax and citizens obtained an injunction. The council then ordered street lights extinguished, fire hydrants shut off and half of the policemen and firemen discharged.

"The companies underwriting the city's fire insurance rushed engineers into the city to rerate it under the reduced fire fighting facilities. The city learned that its $25,000 'savings' in taxes effected through reducing the fire fighting forces was to cost $100,000 a year in increased fire insurance premiums."[5] A citizens committee asked that a municipal one per cent consumers' sales tax be imposed and this went into effect in October 1935.

"The city of Alderson is now in its third year with no income from property for operating expenses. . . . The city has been running on meager profits from a water works plant." "The city of Huntington which suffered a reduction of 48 per cent in its operating funds as a result of the tax limit, like Bluefield, has imposed a local consumers' sales tax." "In Marfrance, disgusted with trying to operate a town without funds, officials have simply closed shop and gone home."[6]

Tax limitation as recently practiced in West Virginia has been a "fiscal nightmare". The result has been services curtailed or stopped entirely, debts increased, strange devices in the form of service fees, cost of local government increased and replacement taxes proving more costly than the property tax.

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5. Seventh Report of New York State Commission for the Revision of the Tax Laws, 1936. p. 46.

6. Ibid. p. 48.

## CHAPTER V

# EFFECT OF TAX LIMITATION IN COLORADO

This chapter attempts to determine the effect upon the finances of counties, schools, and municipalities in Colorado of the specific proposed constitutional tax limitation amendment which is now being circulated.

This proposed initiated amendment would amend Section 3 of Article 10 of the Constitution as follows:[1]

Section 3, Article X:

Section 3—Uniform taxation—Individual exemption. All taxes shall be uniform upon the same class of subjects within the territorial limits of the authority levying the tax, and shall be levied and collected under general laws, which shall prescribe such regulations as shall secure a just valuation for taxation of all property, real and personal; PROVIDED that all property subject to ad valorem taxation shall be valued at its actual value in money and shall be assessed at seventy per centum of such actual value. Such assessed value shall be the taxable value of such property upon which all levies shall be made.

From and after the first day of January, 1937, the rate of taxation on all real and personal property for state, county, school, municipal and all other purposes, including requirements for interest and sinking funds on all future indebtedness but excluding requirements for interest and sinking funds on indebtedness incurred prior to said date, shall not exceed the following rate on each dollar of taxable value of such real and personal property, to-wit: within cities of the first and second class and incorporated towns, twenty mills, and in all other territorial subdivisions, fifteen mills.

The personal property of every person being the head of a family to the value of Two Hundred and Fifty Dollars ($250) shall be exempt from taxation and ditches, canals, flumes and reservoirs owned and used by individuals or corporations for irrigating lands owned by such individuals or corporations or the individual members thereof, shall not be separately taxed as long as they shall be owned or used exclusively for such purpose.

This proposed amendment provides for a radical change in the assessment of property in Colorado. The law at present requires that all property shall be assessed at its "full cash value" which means that assessment shall be at 100 per cent of full cash value. Until 1913 Colorado required the assessed value to be only one-third of full cash value but since that time a 100 per cent assessment ratio has been required. This amendment provides that property shall be assessed at seventy per cent of its "actual value in money". This provision would introduce an additional element of guess work into the already difficult process of assessing property and would be a distinctly backward step in assessment procedure.

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1. The sponsors are, Levi A. Clark, Palisade; Charles E. Collins, Kit Carson; E. P. Gallup, 4111 East 18th Avenue, Denver; H. A. Hamilton, 22 East San Miguel, Colorado Springs; and Mrs. Gertrude Milner, 478 Gilpin Street, Denver.

Altho it is generally recognized that property in Colorado is not assessed at full cash value, and various studies which have been made comparing assessed values with sale values have shown that wide discrepancies exist in the ratio of assessed to full cash value not only among individual properties but also among the different counties, yet the legal requirement of 100 per cent assessment has served to place a uniform interpretation on the law. Furthermore, the adoption of seventy per cent of actual value as the legal assessment ratio may be expected to result in marked reductions in assessed valuation and consequently reductions in general property taxes. This change introduces additional complications in the problem of determining the effect of the proposed amendment upon state and local finances which are impossible to compute. It is clear, however, that some additional reductions in general property tax revenues will result from this feature of the amendment. A 20 mill limit on a hundred per cent assessment is equivalent to a 14 mill limit on a seventy per cent assessment and a 15 mill limit becomes in effect a 10.5 mill limit.

In the second place, this proposed amendment provides that after January, 1937, the rate of taxation on real and personal property for state, county, school, municipal and all other purposes, including requirements for interest and sinking funds in all future indebtedness incurred after said date shall not exceed twenty mills in incorporated municipalities and fifteen mills in all other territorial subdivisions. Interest and sinking fund requirements on all indebtedness incurred prior to said date is excluded from the limitation. No provision whatsoever is made for exceeding the maximum levy as has been done in every other state which has adopted blanket tax limitations.

This amendment is more drastic than any overall tax limitation which has been adopted in any other state in two respects, first, because it provides for a reduction in assessed valuation from 100 per cent to seventy per cent of actual value, a procedure which no other state has adopted in connection with its tax limitation program and second, because it makes no provision whereby the maximum levy may be increased in excess of the limitation. All of the seven states which have previously adopted overall blanket limitation laws have permitted increases in maximum rates upon vote of the electors or by action of an administrative board. Indiana allows the county board of tax adjustment to grant an increase in an emergency. Three states permit increases by majority vote of the electors, one state requires a 60 per cent favorable vote, another state requires a two-thirds vote and still another state requires a three-fifths vote.

Colorado does not have any agency whose function it is to collect and compile information relative to the operation of all local governments. Some material relative to assessed valuation and tax rates is regularly collected by the Tax Commission and by the use of this in-

formation it is possible to determine in a general way the effect of the tax limitation feature of the amendment. The effect of the reduction in assessed valuation from 100 per cent to seventy per cent cannot be statistically measured because the assessment ratio used in appraising the value of real estate and personal property in the various counties and taxing districts of the state is not known. Before launching upon a program of tax limitation, the possibilities which exist for local governments, such as counties, schools, and municipalities to increase their local revenues should be carefully investigated. The amount of local revenues obtained from licenses and fees, operation of municipally owned utilities and other miscellaneous sources by all the municipalities of the state is not known nor can the possibilities of increasing these revenues be determined. No central state department has available the facts as to the functions performed by local governments and the cost of performing these services and the extent to which these costs may be lowered by more efficient management. It would seem essential that certain elementary facts should be available such as the possible new sources of revenue which might be developed to supply the deficiency caused by the reduction in the property tax and the extent to which costs can be reduced or, failing this, what functions and services will have to be discontinued, before any alteration or revision is made in the revenue system of local governments.

No limitation of property tax should be enacted until some reasonable, equitable, and adequate substitute tax has been provided—not to give all local governments all they want to spend but to provide for their actual needs. The sponsors of this amendment have not even suggested sources of revenue which will be adequate. Citizens who own their own homes are threatened by this tax limitation proposal not only by loss of important government services which benefit them and enhance the value of their homes but are placed in real danger of having tax burdens now fairly carried by others, transferred to their shoulders. The proposed amendment advocates a blind and revolutionary change in the revenue system of the state without suggesting any substitute for present revenue gambling that other new taxes may be found or forced.

Finally the adoption of a constitutional overall rate limitation creates a major problem of apportionment of the available revenues among the various taxing units. How shall the available taxes be divided among the state, county, schools, and municipalities? In the event that the amendment was adopted, the decision on this point would have to be decided by the legislature. In the seven states having blanket limitation no two have employed exactly the same methods or machinery for apportioning the rate among the several units.

"The legislature must face squarely the problem involved in the distribution of the reduction required under the limitation and either

provide some method of taking care of that distribution or provide new revenues to replace the property tax losses resulting from the limitation. Should the legislature conclude that no satisfactory method of distribution can be worked out and that revenues cannot be located to replace the losses from the property tax, it must perforce recognize that the tax limitation proposal, appealing as its objectives may be, is an unsound way of achieving those objectives.''[2]

The exclusion of debt service on debt already incurred from the limitation penalizes the local governments which have been conservative in their expenditures programs and gives the benefit to the profligate governments. This exclusion, however, merely postpones for a few years the time when the limit must include all debt service since the amendment provides that debt charges on future debts incurred must come within the limitation. Local governments which are still in the initial stages of development and facing the necessity for substantial permanent improvement during the coming years will be severely handicapped in their growth. Residents of such areas will be forced either to go without services and improvements they desire or to turn to other expedients for raising money. It will be difficult, if not impossible, to secure funds by the issuance of bonds because of the restriction of the power of the local governments to pay the debt charges on such bonds and it will be equally impossible to adopt a pay-as-you-go policy and provide for new improvements out of current revenues because of the pressure for funds for current operation. The inevitable result of the proposed amendment will be stagnation in local government, if the amendment proves to be effective.

From the figures available in the office of the State Tax Commission it is possible to determine for each of the 231 incorporated municipalities the total deficit which would be created in the current operation of state, county, schools, and municipalities, thru the limitation of the total tax rate to twenty mills. Detailed figures for all incorporated cities in support of these findings appear in Appendix A. The proposed constitutional tax limitation of 20 mills in incorporated places would create a deficit of $9 million in the current operation expenditures of the four units of government, state, counties, schools, and municipalities, in the 231 incorporated cities.

The total amount of general property taxes levied for 1936 on the assessed valuation in the 231 incorporated places for all units of government for state, counties, schools, and municipalities is $23 million. Taxes levied for debt service charges totaled $2.7 million, leaving $20.3 million available for current operation. The maximum amount which could be raised by a 20 mill tax would be $11.2 million. The amount of the deficit in current operation would be $9 million.

2. Seventh Report of the New York State Commission for the Revision of the Tax Laws. Leg. Doc. No. 54 (1936) pp. 59-60.

The available revenue would be only 55.0 per cent of the amount levied in 1936. The per cent of present revenue which would be available under the 20 mill limitation in the 232 incorporated places is shown as follows:

| Per cent of Present Revenue which would be available under a 20 mill limitation | Number of Municipalities |
|---|---|
| Below 30% | 5 |
| 30-40 | 34 |
| 40-50 | 71 |
| 50-60 | 67 |
| 60-70 | 37 |
| 70-80 | 10 |
| 80-90 | 6 |
| 90-100 | 2 |
| Total | 232 |

The table shows that in five municipalities, the tax revenue obtained would be less than thirty per cent of their present operating revenue and in 110 municipalities the available tax revenue would be less than fifty per cent of that now levied. In only eight municipalities would there be available more than eighty per cent of present revenue.

An analysis of the 1936 taxes levied for current operation in the 232 incorporated places reveals the fact that not a single incorporated municipality in the state would remain unaffected by a 20 mill limitation. In other words, in every municipality the total tax levy for current operation of the state, county, schools, and cities, is at present in excess of 20 mills. In two municipalities the levy exceeds 90 mills. The distribution of the 1936 levies for current operation only is as follows:

Total taxes levied for current operation of state, county, schools and cities in 231 incorporated places in Colorado in 1936

| Total tax levy 1936 In mills | Number of Incorporated Places |
|---|---|
| 20-24.99 | 8 |
| 25-29.99 | 15 |
| 30-34.99 | 50 |
| 35-39.99 | 46 |
| 40-44.99 | 45 |
| 45-49.99 | 29 |
| 50-54.99 | 16 |
| 55-59.99 | 11 |
| 60-64.99 | 5 |
| 65-69.99 | 2 |
| 70-74.99 | 2 |
| 75-89.99 | 0 |
| 90-94.99 | 2 |
| Total | 231 |

The reduction in general property taxes for current operation in the territory outside incorporated places for the operation of all units of government under a 15 mill limitation would amount to approximately $3.9 million.

The total amount of general property taxes levied for 1936 on the assessed valuation of the 2,082 school districts for operation of the state, counties and schools was $13 million. Taxes levied for debt service charges totaled $1.2 million leaving $11.8 million available for current operation. The maximum amount which could be raised by a 15 mill tax would be $7.9 million. The amount of the deficit in current operation would be $3.9 million. The available revenue would be only 67 per cent of the amount levied in 1936.

The total effect of both the 20 mill and the 15 mill limit would be to create a loss in operating revenues of about $12.9 million, disregarding the effect of the 70 per cent assessed ratio and making no allowances for uncollected taxes.

A study of the tax rates for maintenance in the 2,082 school districts situated outside of incorporated places reveals the fact that only fourteen school districts would be unaffected by a 15 mill limitation. In the remaining 2,064 school districts the combined tax rate for maintenance of the three governmental units, state, county, and schools is in excess of 15 mills.

The distribution of the combined total tax rates for maintenance is given as follows:

| Total Tax Rate In Mills | Number of School Districts |
|---|---|
| Below 15 mills | 14 |
| 15—19.99 | 438 |
| 20—24.99 | 806 |
| 25—29.99 | 438 |
| 30—34.99 | 265 |
| 35—39.99 | 86 |
| 40—44.99 | 26 |
| 45—49.99 | 8 |
| Over 50 | 1 |
| Total | 2,082 |

The number of school districts which would sustain various percentages of loss in revenue for maintenance under a 15 mill limitation is shown in the following table:

| Percentage of Loss in Maintenance Revenue | Number of Districts |
|---|---|
| 0—9.9% | 63 |
| 10—19.9 | 195 |
| 20—29.9 | 465 |
| 30—39.9 | 569 |
| 40—49.9 | 441 |

| Percentage of Loss in Maintenance Revenue | Number of Districts |
|---|---|
| 50—59.9 | 313 |
| 60—69.9 | 67 |
| Over 70.0 | 1 |
| Total | 2,114 |

In 63 districts the loss in revenue would be 10 per cent or less. In one-third of the districts the loss would be 30 per cent or less. In 381 districts the loss would be more than 50 per cent.

If the proposed amendment were adopted in Colorado it would be necessary to raise from sources other than the tax on real property, and exclusive of all other types of revenue now being collected by governmental units, the sum of $13 million. It is estimated on the basis of the present distribution of taxes between state, counties, schools and cities, that about one-half of this new revenue would be required by schools, one-fourth by counties and one-fourth by municipalities. Under the present constitution it would not be possible for the state to collect new revenues and apportion them to counties and municipalities because of the prohibition in Section 7, Article X of the Constitution which states that "The general assembly shall not impose taxes for the purposes of any county, city, town or other municipal corporation." There has been some doubt as to the power of the state to apportion state collected revenue to school districts and in order that this matter might be definitely decided the last legislature appropriated $500 from the general fund of the state for the support of the public schools and the constitutionality of this law is now being tested in the courts and is now before the Supreme Court.

The municipalities would be the most seriously affected of all units of government by the adoption of a 20 mill tax limitation because it would reduce the revenues derived from the property tax far below their normal requirements and it would not be possible for the state to come to their aid by apportioning any of the new sources of revenue to them, until Section 7 of the constitution could be amended or repealed. During this period the municipal governments in Colorado would be seriously disrupted if not actually destroyed. It is not feasible for municipalities to levy income, inheritance, sales or other modern taxes so that when the revenues of the general property tax are reduced fifty per cent or more, as would be the situation in over 110 municipalities, the only alternative is to stop essential municipal services. Furthermore, the experience with overall tax limitation in the other states has been that the municipalities were the most seriously affected.

Another method of arriving at the effect of a 20 mill limitation in incorporated places is to analyze the present distribution of tax levies made by counties, school districts, and municipalities and to assume

a reasonable allocation of the levies to the three units of government. The distribution of total tax levies for 1936 was as follows:

COUNTY LEVIES

| Levy in Mills | Number of Counties | Cumulative Total |
|---|---|---|
| 0— 2.99 | 0 | 0 |
| 3— 5.99 | 8 | 8 |
| 6— 8.99 | 29 | 37 |
| 9—11.99 | 11 | 48 |
| 12—14.99 | 13 | 61 |
| Over 15.0 | 2 | 63 |
| Total | 63 | |

SCHOOL DISTRICT LEVIES IN CITIES

| Levy in Mills | Number of School Districts | Cumulative Total |
|---|---|---|
| 0— 4.99 | 17 | 17 |
| 5— 9.99 | 64 | 81 |
| 10—14.99 | 87 | 168 |
| 15—19.99 | 51 | 219 |
| 20—24.99 | 10 | 229 |
| 25—29.99 | 0 | |
| 30—34.99 | 1 | 230 |
| Total | 230 | |

CITY LEVIES

| Levy in Mills | Number of Cities | Cumulative Total |
|---|---|---|
| 0— 2.99 | 7 | 7 |
| 3— 5.99 | 32 | 39 |
| 6— 8.99 | 38 | 77 |
| 9—11.99 | 42 | 119 |
| 12—14.99 | 43 | 162 |
| 15—17.99 | 29 | 191 |
| 18—20.99 | 15 | 206 |
| 21—23.99 | 3 | 209 |
| 24—26.99 | 8 | 217 |
| 27—29.99 | 4 | 221 |
| 30—32.99 | 3 | 224 |
| 33—35.99 | 1 | 225 |
| Over 36.00 | 3 | 228 |
| Total | 228 | |

In addition, nearly all the counties levy 5 mills for the general county school fund to pay the minimum teachers' salary, and there is of course the state levy of 3 mills. Assuming that these two levies on property might be discontinued and replaced by new state-collected taxes, which would require raising $8,057,058 from other sources, how might the 20 mills be allocated to the three local units, counties, schools, and cities?

Assume a county levy of six mills, a school levy of six mills and a city levy of eight mills, making a total levy of twenty mills. Only eight of the 63 counties would be unaffected by a levy of six mills. Whereas, 55 counties now find it necessary to make a larger levy. The average county levy in 1935 was 9.75 mills. About 40 school districts would remain unaffected by a levy of six mills and some 60 municipalities would be unaffected. The average school district levy was 16.18 mills and the average city levy was 17.14 in 1935.

The large variations in tax levies are due to fundamental differences in taxable wealth and assessed valuation and to varying needs and requirements, and they show the impossibility of fixing a rigid tax limit on property unless the state is prepared to supplement the revenues derived from property taxes with other revenues.

The tax limitation program raises certain fundamental questions related to fiscal policy and the functioning of democratic government.

The state will be confronted with the task of raising new revenues for the support of local government. From what sources are these revenues to be obtained? Our estimates indicate that about thirteen million dollars will be required. Will the new taxes be heavier sales taxes, an increased inheritance tax, a graduated personal income tax, heavier taxes on railroads and public utilities, business and occupation taxes, corporation taxes, taxes on banks and financial institutions or a capitation tax of $13 per person? Unless the income tax amendment is adopted, the largest untapped sources of wealth, namely, intangible wealth cannot be successfully reached. Reliable estimates indicate that intangible wealth in Colorado, now untaxed, at least equals and probably exceeds in value real and tangible personal property.

The new revenue when collected cannot be legally apportioned to counties and municipalities and possibly school districts under our present constitution. The adoption of the income tax amendment would, however, permit the proceeds of the income tax to be apportioned but until Section 7 of Article X is amended or repealed other types of revenue could not be allocated to local governments.

The partial support of local units of government thru state collected taxes tends inevitably toward the substitution of state control of local finances for local control. If the state pays, the state must control. It is a direct blow at democracy and representative government and violates the principle of home rule in local affairs. Local units will find themselves in a financial straight jacket, their right to govern themselves according to their needs and conditions abridged and will henceforth be dependent upon the magnanimity and benevolence of the state government.

*Effect Upon Railroads and Public Utilities.*

The assessed valuation of railroads and public utilities for 1935 as assessed by the tax commission was $193,860,545. The average county levy in 1935 was 32.6 mills for the state as a whole. Assuming these corporations were taxed at this average millage the total amount of taxes assessed against them amounted to $6.3 million. Assuming that one-half of the property of these corporations is situated within incorporated places and would be subject to the 20 mill limit and one-half is located outside and subject to the 15 mill limitation, the taxes imposed upon these corporations under the proposed amendment would tend to approach $3.3 million as existing outstanding bonds are retired and the maximum tax levy became effective. The annual savings which these corporations might be expected to enjoy if the proposed tax limitation amendment were adopted would ultimately amount to about $3.0 million annually. Since corporations largely escape paying sales

taxes this would result in shifting several million dollars of taxes now being paid by them to individuals, many of whom own no property and have no real tax paying ability. In Michigan, the savings enjoyed by the large utilities thru the imposition of the 15 mill tax limitation have already amounted to $2.0 million annually and this will increase as the average state rate approaches the 15 mill limit.

# CHAPTER VI

## SUMMARY AND CONCLUSIONS

It is apparent from this study that overall tax limitation is unsound in principle and that its net results are destructive rather than constructive in character.

The following reasons may be presented to show that the plan is unsound in principle:

1. The proportion of total income required for governmental purposes varies from decade to decade but tends to increase as governments are called upon to perform a greater number and variety of services and activities. The proportion of taxes which real estate shall bear should not be fixed in the constitution.
2. The tax limitations of one or two per cent on the value of real property are not based on any scientific study or determination of how much of the tax burden should be borne by real estate. Such studies as have been made indicate that real property should bear not less than one-half of all expenditures for municipal governments since more than half of all municipal costs are directly beneficial to property owners. Such services as police patrol, fire fighting and prevention, sanitary collection and disposal, sewer system, water supply, care of streets and other public utilities, and public improvements such as bridges, highways, viaducts, schools, parks, and public buildings directly benefit real property and enhance its value.
3. Rigid statewide overall tax limitation endeavors to apply a uniform limit to situations which are not uniform. The needs of counties, school districts, and cities vary greatly and their ability to pay for services of government as measured by taxable wealth varies enormously. For this reason arbitrary limits should not be placed in the constitution.
4. Tax limitation "destroys the fundamental right upon which local self government is based through preventing citizens of a locality from determining the governmental services they want and are willing to pay for."
5. "It puts local government into a straight jacket which stifles its development and must in the end result in its disappearance."[1]

A statement of the actual results of tax limitation in the seven states which have experimented with the plan may be summarized as follows:

1. Seventh Report of the New York Commission for the Revision of the Tax Laws, January 1923, p. 353.

1. It has resulted in shifting a portion of the burden borne by real property owners to other groups. Almost without exception the tax burden has been shifted from real property owners to the great mass of consumers thru the imposition of sales taxes. Tax relief for property owners has meant greater burdens for the poor, and low income groups. Large property owners, non-residents, and corporations are the chief beneficiaries. The great majority of citizens will lose more than they gain. They will pay much more in sales taxes than they save in reduction of property taxes. The average taxpayer may save from $12 to $15 in property taxes but will pay from $20 to $40 in sales taxes.

2. Tax limitation has not materially reduced the total volume of taxation nor curtailed expenditures. Total taxes were not reduced, they were merely shifted. In every state millions of dollars of new revenue were raised to replace the taxes lost thru reduction in property taxes. The plan has demonstrated that reductions in the cost of government cannot be effected, commensurate with the reduction in the property tax. New revenues have been sought to prevent the impairment or destruction of present services. In those states in which existing constitutional restrictions have prevented the allocation of the new state collected revenues to counties and municipalities, as in Oklahoma, Washington, and West Virginia, there has resulted a crippling of present services of local governments. In Michigan and Ohio local governments have suffered because of the new revenues being inadequate to restore the loss.

3. Tax limitation has not resulted in economy of operation nor has it been effective in controlling expenditures. Local governments deprived of revenues have resorted to deficiency bond issues with the result that ultimately costs will be greatly increased. There has been a shift from taxes to borrowing for current expenses. The pay-as-you-go plan has been discouraged or rendered impossible. Local governments were saddled with the cost of extra elections made necessary to vote levies outside the limitation. Scientific budgeting is rendered difficult if not impossible and the emphasis has changed from economy of operation of local units to that of demanding a greater share of state collected funds.

4. Tax limitation has not resulted in tax reform. The adoption of sales taxes does not constitute tax reform but is a distinctly backward step. The two most universally recognized indexes of financial capacity and taxing ability are property and income. An equitable tax system will distribute the tax burden in accordance with the natural economic resources of the state and taxpaying capacity of its citizens. A tax on net income is recognized as the

fairest tax yet derived and is the best method of reaching the large volume of intangible wealth. Without it large amounts of wealth and taxpaying ability will remain untaxed. Only two states, New Mexico and West Virginia, have adopted the net income tax as a result of tax limitation. In Washington it was declared unconstitutional and in Michigan the tax limitation has erected another barrier to income taxation. The sales taxes which have been adopted under the stress of the depression and the urgent need for new revenue resulting from tax limitation may become permanent features of the tax system in spite of the fact that they cannot be defended on any principle of justice. They will be vigorously supported by those groups which find in the sales tax a convenient weapon against the further development of income and inheritance taxes and will be continued as long as the wealthier groups are able to shift the burden of taxation to the poor and low income groups.

5. Tax limitation has resulted in a marked reduction or abolition of the state tax on property for state purposes. In Michigan and Oklahoma the state property tax was abolished.

6. The schools have received large allocations of the state-collected revenues and in general have not suffered greatly as a result of tax limitation. The apportionment of funds to school districts has not been made in accordance with recognized principles of equalization of school opportunities and tax burdens with the exception of Indiana.

   In some instances the state funds have gone to school districts amply able to finance their own schools. In only one state, West Virginia, has there resulted any reorganization of school districts, in the interest of real economy. There the county unit system has been adopted. Schools have suffered greatly from the confusion and uncertainty of financial support and a large degree of local control has been surrendered to state control.

7. Municipalities have been most seriously affected by tax limitation. In general their revenues have been drastically reduced, and they have received very little aid from the state. This has resulted in serious impairment of services and in many cities the abandonment of certain services. Borrowed funds have been relied upon to finance current operations. Indebtedness has increased. Credit has been impaired or destroyed. Expenditures, ultimately have been increased.

8. Sales taxes have been relied upon in every state to furnish the new replacement revenues. This has shifted the tax burden to the propertyless group, the poor and the low income groups. The

average citizen has been forced to pay more in sales taxes than he benefited in lowered property taxes.

9. Chief beneficiaries have been the large property owners, non-resident property owners and corporations.
10. The plan is an unintelligent and ineffective effort to accomplish desirable results. It is selfish in character, designed primarily to shift the burden from real property to other sources of income. If adopted the plan would operate to prevent real property from paying its fair and just share of taxes.

The effects of the adoption of the tax limitation in Colorado may be briefly summarized as follows:

1. The effect would be much more serious in Colorado than in any other state which has adopted the plan because the constitutional amendment proposed is much more drastic than the amendments which have been adopted in other states in two respects.
   (a) It provides for a reduction in assessed valuation from 100 per cent to 70 per cent of true value.
   (b) It makes no provision whereby the maximum limit may be exceeded. All the other states have permitted increases in the maximum rate, usually upon vote of the electors of the taxing district.
2. The total reduction in property taxes for current operation would amount to $13 million. This amount of money would have to be raised from new sources of income if state and local government continue to function as at present.
3. The state, counties, and schools may be expected to be provided for first out of the proceeds of the new revenues and the municipalities would receive what, if anything, was left. In every state, without exception the municipalities have been most seriously affected of all units of government by tax limitation.
4. The municipalities in Colorado could not legally receive any of the new revenues collected by the state because of the prohibition in Section 7, Article X. The state could not aid them, even if it had sufficient revenues and desired to do so. Until Section 7 could be amended or repealed the only alternative would be for the state to assume certain functions now performed by municipalities.
5. No municipality in Colorado at present, has a total levy on real estate for operating as low as 20 mills. Of the 231 incorporated places, 208 have levies of more than 30 mills. The average or median levy is about 40 mills and two cities levy more than 90 mills. Reductions in operation revenues of 30, 40, and 50 per cent would be the general rule if the amendment were adopted. Present services would be impaired and many activities would have

to be abolished entirely or else cities would be forced to operation on borrowed funds, and a large bonded debt would result.

6. Only 14 school districts out of a total of 2,082, situated outside of incorporated places had levies for operation below 15 mills.
7. Unless the graduated income tax amendment is adopted at the November election the only major source of revenue available to replace the loss in property taxes appears to be the sales tax. The rates would need to be increased enormously. The opportunity presented to the people of Colorado appears to be a choice between property tax limitation and heavier sales taxes. A vote for tax limitation would result in the average citizen voting to impose heavier burdens upon himself in order to relieve large property owners, corporations, and public utilities of a portion of their property taxes. This has been the net result in other states.
8. The plan may be expected to result in shifting from local support of local functions to state support of local functions with the following results:
   (a) Increased expenditures by the state for an increasing number of local functions.
   (b) State control and supervision over local governments, and a weakening of home rule and democracy.
   (c) Residents of cities taxed thru a sales tax to pay for not only the tax relief afforded their own real estate but for relief given to real estate in other counties where the replacement tax produces little or nothing.
9. The state property tax for state purposes will probably be greatly reduced or abolished entirely. This has been the universal result in every other state which has adopted the plan.
10. Local governments, schools, and municipalities would be seriously crippled and many activities would have to be discontinued. Financial chaos would result during the period of readjustment. Bonded indebtedness would be increased and in the long run it would prove excessively expensive to operate local government on borrowed funds. The impairment of local government would have disastrous results upon real estate values and in the end real property owners would not be benefited by the reduction in property taxes.

## ALTERNATIVES TO TAX LIMITATION

All of the objectives sought by proponents of property tax limitation have been achieved in most of the progressive American states without resorting to tax limitation and its attendant disastrous effects upon local governments, particularly upon municipalities.

If the purpose of tax limitation is to check or reduce government expenditures, this can only be done by the adoption of effective budget procedure and sound bonding policies. It cannot be achieved thru the tax limitation and has not been achieved in any state which has adopted rigid tax limits. In no state has the total volume of tax revenues or total expenditures materially decreased as a result of tax limitation. In every state the revenues lost thru property taxes have been made up by taxes on other sources of incomes. It will be granted readily that it is highly desirable to reduce public expenditures in times when taxes are paid only with difficulty and sacrifice. This has been done in every state during the depression regardless of tax limit. Tax limitation has made no contribution whatever to the problem of securing real economy in the operation of government. Its results, in the long run, have proved to be the exact opposite. Debt accumulations, and increased future taxes have been the result. The energies of both citizens and public officials have been consumed in useless efforts and controversies made necessary to keep governments functioning at all under an almost impossible handicap. If the problems of real economy and real expenditure control were attacked directly, significant and far reaching economies can be achieved. The technique of securing real economy and efficiency in the operation of government has been known and has been applied with outstanding success in many states and local governments during the past 25 years. Among the constructive measures which must be adopted if genuine savings are to be realized are the following: better organization of governments, employment of trained and competent personnel, the adoption of improved practices and procedures in the conduct of public business such as adequate accounting systems, effective budgeting, centralized purchasing, periodic audits, public reporting systems and centralized fiscal control and supervision.

The need for the establishment of more effective control over the issuance of public indebtedness is a factor of major importance in any attempt to control public expenditures. No permanent financial relief to taxpayers will be effected until greater restraints are placed upon the issuance of public debt and to be effective the control must operate before the debt is incurred. Several states, notably Massachusetts, New Jersey, and North Carolina, have placed restrictions on the amount, the purpose, the term of the bond and require that all future bonds shall be serial bonds. State supervision of the issuance of local bonds is now in operation in nine states. If the same amount of thought and energy now being devoted to tax limitation were devoted to sound and constructive measures designed to secure effective debt control, we might reasonably expect to realize in a comparatively short period of time some permanent and lasting contribution toward real economy. Unfortunately, taxpayers in a few states confronted with

heavy tax bills for the support of governmental expenditures followed the leadership of those who lacked the constructive grasp necessary to secure tax reduction in the only manner which they can be effectively achieved and have seized upon a method which promises relief but which in the end will result in failure and disappointment.

Control over expenditures, through effective budgeting and control over debts rather than arbitrary tax limits are the only real road to economy in government and ultimate relief of real estate. A reduction in the amount of taxes paid by real estate and tangible property thru the substitution of taxes on other sources of income such as sales taxes, income taxes, and business taxes has been achieved in many states without tax limitation. In fact there has been a definite trend in this direction throughout the country as is shown by the fact that thirty-three states have adopted income taxes and the revenue derived from the income has resulted in a lowering of the property tax. This substitution method has been employed with conspicuous success in many states which have not resorted to tax limitation. California is a conspicuous example of a state which has reduced property tax by the use of the sales tax without tax limitation. The reduction in property taxes is accomplished in large part by the allocation of state-collected taxes to local governments. This also is a well defined trend throughout the country at the present time and has been accomplished in most progressive states without the forcing power of tax limitation and long before tax limitation was introduced.

# APPENDIX A

## Effect on Local Government Finances in Colorado of Proposed Constitutional Tax Limitation Amendment

| | Assessed Valuation (1) | Total 1936 Levy (2) | Total Debt Levy (3) | Total 1936 Taxes Current Operation (4) | Total Taxes (5) | Taxes for Debt Service (6) | Taxes for Current Operation (7) | Amount Which Could be Raised by 20 Mill Levy (8) | Deficit in Current Operation (9) | Per Cent of Present Revenue Which Would be Available Under 20 Mill Levy (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| **Adams County—** | | | | | | | | | | |
| Aurora | $ 725,230 | 78.80 | 30.52 | 48.28 | $ 57,148 | $ 22,134 | $ 35,014 | $ 14,505 | $ 20,509 | 41.43% |
| Bennett | 136,290 | 46.84 | 14.00 | 32.84 | 6,384 | 1,908 | 4,476 | 2,726 | 1,750 | 60.90 |
| Brighton | 1,830,000 | 44.20 | 4.30 | 39.90 | 80,886 | 7,869 | 73,017 | 36,600 | 36,417 | 50.13 |
| Westminster | 266,640 | 41.93 | 4.50 | 37.43 | 11,180 | 1,200 | 9,980 | 5,333 | 4,647 | 53.44 |
| **Alamosa County—** | | | | | | | | | | |
| Alamosa | 2,307,575 | 64.68 | .08 | 64.60 | 149,254 | 185 | 149,069 | 46,151 | 102,918 | 30.96 |
| Hooper | 72,148 | 36.41 | .08 | 36.33 | 2,627 | 6 | 2,621 | 1,443 | 1,178 | 55.06 |
| **Arapahoe County—** | | | | | | | | | | |
| Aurora | 416,835 | 117.30 | 68.02 | 49.28 | 48,895 | 28,353 | 20,542 | 8,337 | 12,205 | 40.59 |
| Deer Trail | 181,145 | 63.14 | 29.00 | 34.14 | 11,437 | 5,253 | 6,184 | 3,621 | 2,561 | 58.59 |
| Englewood | 3,340,150 | 50.80 | 2.40 | 48.40 | 169,680 | 8,016 | 161,663 | 66,803 | 94,860 | 41.32 |
| Littleton | 1,221,620 | 48.90 | 2.50 | 46.40 | 59,737 | 3,054 | 56,683 | 24,432 | 32,251 | 43.10 |
| Sheridan Junction | 371,255 | 49.10 | 9.34 | 39.76 | 18,229 | 3,468 | 14,761 | 7,425 | 7,336 | 50.30 |
| **Archuleta County—** | | | | | | | | | | |
| Pagosa Springs | 389,478 | 51.00 | 11.00 | 40.00 | 19,863 | 4,284 | 15,579 | 7,790 | 7,789 | 50.00 |
| **Baca County—** | | | | | | | | | | |
| Springfield | 558,500 | 49.00 | 15.71 | 33.29 | 27,367 | 8,774 | 18,592 | 11,170 | 7,422 | 60.08 |
| Two Buttes | 47,300 | 42.51 | 8.21 | 34.30 | 2,011 | 388 | 1,622 | 946 | 676 | 58.32 |
| Walsh | 192,000 | 51.51 | 14.71 | 36.80 | 9,890 | 2,824 | 7,066 | 3,840 | 3,226 | 54.34 |
| Pritchett | 147,700 | 62.51 | 17.21 | 45.30 | 9,233 | 2,542 | 6,691 | 2,954 | 3,737 | 44.15 |
| Vilas | 35,000 | 38.51 | 6.21 | 32.30 | 1,348 | 217 | 1,131 | 700 | 431 | 61.89 |
| **Bent County—** | | | | | | | | | | |
| Las Animas | 1,424,799 | 47.40 | 5.75 | 41.65 | 67,535 | 8,193 | 39,343 | 28,496 | 30,847 | 48.02 |
| **Boulder County—** | | | | | | | | | | |
| Boulder | 9,646,644 | 44.40 | 2.35 | 42.05 | 428,311 | 22,670 | 405,641 | 192,933 | 212,708 | 47.56 |
| Longmont | 4,210,563 | 33.20 | 3.87 | 29.33 | 139,791 | 16,295 | 123,496 | 84,211 | 39,285 | 68.19 |
| Lafayette | 466,530 | 69.70 | 3.77 | 65.93 | 32,517 | 1,759 | 30,758 | 9,331 | 21,427 | 30.34 |
| Louisville | 436,185 | 57.77 | 6.07 | 51.70 | 25,198 | 2,648 | 22,551 | 8,724 | 13,827 | 38.69 |
| Lyons | 178,862 | 62.12 | 5.57 | 56.55 | 11,111 | 996 | 10,115 | 3,577 | 6,538 | 35.36 |
| Superior | 32,911 | 56.91 | 3.77 | 53.14 | 1,873 | 124 | 1,749 | 658 | 1,091 | 37.62 |
| Ward | 25,445 | 35.23 | 1.57 | 33.66 | 896 | 40 | 856 | 509 | 347 | 59.46 |
| Jamestown | 24,177 | 38.40 | 1.57 | 36.83 | 928 | 38 | 890 | 484 | 406 | 54.38 |
| Eldora | 45,819 | 23.33 | 1.57 | 21.76 | 1,069 | 72 | 997 | 916 | 81 | 91.88 |
| Nederland | 122,336 | 48.69 | 1.57 | 47.12 | 5,957 | 192 | 5,764 | 2,447 | 3,317 | 42.45 |

# APPENDIX A—Continued

Effect on Local Government Finances in Colorado of Proposed Constitutional Tax Limitation Amendment

| | Assessed Valuation (1) | Total 1936 Levy (2) | Total Debt Levy (3) | Total 1936 Taxes Current Operation (4) | Total Taxes (5) | Taxes for Debt Service (6) | Taxes for Current Operation (7) | Amount Which Could be Raised by 20 Mill Levy (8) | Deficit in Current Operation (9) | Per Cent of Present Revenue Which Would be Available Under 20 Mill Levy (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| Chaffee County— | | | | | | | | | | |
| Buena Vista | 409,295 | 49.00 | 3.95 | 45.05 | 20,005 | 1,617 | 18,439 | 8,186 | 10,253 | 44.40 |
| Salida | 2,853,985 | 55.60 | 10.25 | 45.35 | 158,682 | 29,253 | 129,428 | 57,080 | 72,348 | 44.10 |
| Poncha Springs | 59,080 | 27.90 | 1.45 | 26.45 | 1,648 | 86 | 1,563 | 1,182 | 381 | 75.62 |
| Cheyenne County— | | | | | | | | | | |
| Cheyenne Wells | 410,105 | 46.13 | 10.13 | 36.00 | 18,918 | 4,154 | 14,764 | 8,202 | 6,562 | 55.55 |
| Kit Carson | 177,390 | 30.18 | 5.81 | 24.37 | 5,354 | 1,031 | 4,323 | 3,547 | 776 | 82.05 |
| Clear Creek County— | | | | | | | | | | |
| Georgetown | 335,520 | 41.35 | | 41.35 | 13,874 | | 13,874 | 6,710 | 7,164 | 48.36 |
| Idaho Springs | 1,007,275 | 44.90 | | 44.90 | 45,226 | | 45,226 | 20,146 | 25,080 | 44.55 |
| Silver Plume | 109,300 | 41.90 | | 41.90 | 4,579 | | 4,579 | 2,186 | 2,393 | 47.74 |
| Empire | 43,210 | 33.22 | | 33.22 | 1,435 | | 1,435 | 864 | 571 | 60.21 |
| Conejos County— | | | | | | | | | | |
| Antonito | 342,118 | 55.90 | 6.50 | 49.40 | 19,124 | 2,223 | 16,901 | 6,842 | 10,059 | 40.48 |
| La Jara | 230,257 | 50.00 | 5.10 | 44.90 | 11,513 | 1,174 | 10,339 | 4,605 | 5,734 | 44.54 |
| Manassa | 167,934 | 45.00 | 5.00 | 40.00 | 7,557 | 840 | 6,717 | 3,359 | 3,358 | 50.01 |
| Romeo | 62,918 | 40.50 | 3.50 | 37.00 | 2,548 | 220 | 2,328 | 1,258 | 1,070 | 54.04 |
| Sanford | 110,343 | 48.40 | 6.00 | 42.40 | 5,340 | 662 | 4,678 | 2,207 | 2,471 | 47.18 |
| Costillo County— | | | | | | | | | | |
| Blanca | 145,610 | 57.22 | 5.50 | 51.72 | 8,331 | 800 | 7,531 | 2,912 | 4,619 | 38.67 |
| Crowley County— | | | | | | | | | | |
| Olney Springs | 87,025 | 35.35 | 3.30 | 32.05 | 3,076 | 287 | 2,789 | 1,740 | 1,049 | 62.39 |
| Crowley | 144,515 | 45.95 | 7.50 | 38.45 | 6,642 | 1,084 | 5,558 | 2,890 | 2,668 | 52.00 |
| Ordway | 678,030 | 48.15 | 6.00 | 42.15 | 32,645 | 4,068 | 28,577 | 13,560 | 15,017 | 47.45 |
| Sugar City | 173,600 | 56.22 | 5.07 | 51.15 | 9,759 | 880 | 8,879 | 3,472 | 5,407 | 39.10 |
| Custer County— | | | | | | | | | | |
| Westcliffe | 235,055 | 33.50 | 1.00 | 32.50 | 7,874 | 235 | 7,639 | 4,701 | 2,938 | 61.54 |
| Silver Cliff | 20,284 | 41.10 | 1.00 | 40.10 | 833 | 20 | 813 | 405 | 408 | 49.82 |
| Delta County— | | | | | | | | | | |
| Delta | 1,887,415 | 53.32 | 4.40 | 48.92 | 100,636 | 8,304 | 92,332 | 37,748 | 54,584 | 40.88 |
| Paonia | 492,820 | 54.62 | 1.20 | 53.42 | 26,917 | 591 | 26,326 | 9,856 | 16,470 | 37.44 |
| Hotchkiss | 286,655 | 65.02 | 11.20 | 53.82 | | 321 | 15,428 | 5,733 | 9,695 | 37.16 |
| Cedaredge | 203,915 | 65.58 | 7.80 | 57.78 | 13,372 | 1,590 | 11,782 | 4,078 | 7,704 | 34.61 |
| Crawford | 50,765 | 55.42 | 6.00 | 49.42 | 2,813 | 304 | 2,509 | 1,015 | 1,494 | 40.45 |
| Orchard City | 437,560 | 41.42 | 6.50 | 34.92 | 18,123 | 2,844 | 15,279 | 8,751 | 6,528 | 57.27 |

# APPENDIX A—Continued

Effect on Local Government Finances in Colorado of Proposed Constitutional Tax Limitation Amendment

| | Assessed Valuation (1) | Total 1936 Levy (2) | Total Debt Levy (3) | Total 1936 Taxes Current Operation (4) | Total Taxes (5) | Taxes for Debt Service (6) | Taxes for Current Operation (7) | Amount Which Could be Raised by 20 Mill Levy (8) | Deficit in Current Operation (9) | Per Cent of Present Revenue Which Would be Available Under 20 Mill Levy (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| Denver County— | | | | | | | | | | |
| Denver | 352,356,740 | 34.60 | 3.67 | 30.93 | 12,191,543 | 1,293,149 | 10,898,394 | 7,047,135 | 3,851,259 | 64.66 |
| Dolores County— | | | | | | | | | | |
| Rico | 118,010 | 49.77 | 13.50 | 36.27 | 5,873 | 1,593 | 4,280 | 2,360 | 1,920 | 55.14 |
| Douglas County— | | | | | | | | | | |
| Castle Rock | 236,910 | 45.73 | 13.90 | 31.83 | 15,406 | 4,683 | 10,723 | 6,738 | 3,985 | 62.84 |
| Eagle County— | | | | | | | | | | |
| Eagle | 247,991 | 51.40 | 14.10 | 37.30 | 12,746 | 3,496 | 9,250 | 4,960 | 4,290 | 53.62 |
| Red Cliff | 135,591 | 41.42 | | 41.42 | 5,616 | | 5,616 | 2,712 | 2,904 | 48.29 |
| Gypsum | 106,729 | 31.55 | | 31.55 | 3,367 | | 3,367 | 2,135 | 1,232 | 63.41 |
| Basalt | 36,372 | 13.00 | | 13.00 | 472 | | 472 | 727 | | |
| Minturn | 74,111 | 5.15 | | 5.15 | 381 | | 381 | 1,482 | | |
| Elbert County— | | | | | | | | | | |
| Elizabeth | 123,603 | 36.33 | 7.00 | 29.33 | 4,490 | 865 | 3,625 | 2,472 | 1,153 | 68.20 |
| Kiowa | 96,656 | 39.69 | 11.14 | 28.55 | 3,836 | 1,076 | 2,760 | 1,933 | 847 | 70.04 |
| Simla | 206,430 | 62.27 | 10.00 | 52.27 | 12,854 | 2,064 | 10,790 | 4,129 | 6,661 | 38.27 |
| El Paso County— | | | | | | | | | | |
| Colorado Springs | 28,608,880 | 46.15 | 3.92 | 42.23 | 1,320,299 | 112,146 | 1,208,153 | 572,178 | 635,975 | 47.35 |
| Manitou | 2,073,920 | 38.25 | 4.90 | 33.35 | 79,327 | 10,162 | 69,165 | 41,478 | 27,687 | 59.96 |
| Palmer Lake | 343,870 | 41.72 | 6.00 | 35.72 | 14,346 | 2,063 | 12,283 | 6,877 | 5,406 | 55.99 |
| Fountain | 215,040 | 52.35 | 5.30 | 47.05 | 11,257 | 1,140 | 10,117 | 4,301 | 5,816 | 42.51 |
| Green Mtn. Falls | 144,720 | 37.65 | | 37.65 | 5,448 | | 5,448 | 2,894 | 2,554 | 53.12 |
| Monument | 65,260 | 44.25 | 4.40 | 39.85 | 2,887 | 287 | 2,600 | 1,305 | 1,295 | 50.19 |
| Calhan | 198,800 | 54.96 | 8.00 | 46.96 | 10,926 | 1,591 | 9,335 | 3,976 | 5,359 | 42.59 |
| Ramona | 18,270 | 32.53 | | 32.53 | 588 | | 588 | 365 | 223 | 62.07 |
| Ramah | 82,340 | 46.21 | | 46.21 | 3,804 | | 3,804 | 1,647 | 2,157 | 43.29 |
| Fremont County— | | | | | | | | | | |
| Canon City | 3,772,220 | 46.96 | 2.10 | 44.86 | 177,143 | 7,922 | 169,221 | 75,444 | 93,777 | 44.58 |
| Florence | 1,689,760 | 48.30 | 7.50 | 40.80 | 81,615 | 12,673 | 68,942 | 33,795 | 35,147 | 49.01 |
| East Canon | 276,170 | 36.40 | 2.10 | 34.30 | 10,052 | 579 | 9,473 | 5,523 | 3,950 | 58.30 |
| South Canon | 497,120 | 46.90 | 2.10 | 44.80 | 23,304 | 1,034 | 22,270 | 9,942 | 12,328 | 44.64 |
| Coal Creek | 28,760 | 66.80 | 5.00 | 61.80 | 1,921 | 144 | 1,777 | 575 | 1,202 | 32.35 |
| Rockvale | 80,400 | 39.60 | | 39.60 | 3,184 | | 3,184 | 1,608 | 1,576 | 50.50 |
| Williamsburg | 46,805 | 42.60 | | 42.60 | 1,994 | | 1,994 | 936 | 1,058 | 46.94 |
| Brookside | 30,610 | 36.10 | 5.50 | 30.60 | 1,105 | 168 | 937 | 612 | 325 | 65.31 |

# APPENDIX A—Continued

Effect on Local Government Finances in Colorado of Proposed Constitutional Tax Limitation Amendment

| | Assessed Valuation (1) | Total 1936 Levy (2) | Total Debt Levy (3) | Total 1936 Taxes Current Operation (4) | Total Taxes (5) | Taxes for Debt Service (6) | Taxes for Current Operation (7) | Amount Which Could be Raised by 20 Mill Levy (8) | Deficit in Current Operation (9) | Per Cent of Present Revenue Which Would be Available Under 20 Mill Levy (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| Garfield County— | | | | | | | | | | |
| Glenwood Springs .. | 1,523,250 | 54.15 | 17.60 | 36.55 | 82,484 | 26,809 | 55,675 | 30,465 | 25,210 | 54.72 |
| Rifle | 557,620 | 64.99 | 10.05 | 54.94 | 36,240 | 5,604 | 30,636 | 11,152 | 19,484 | 36.40 |
| Carbondale | 194,100 | 57.30 | 21.40 | 35.90 | 11,122 | 4,154 | 6,968 | 3,882 | 3,086 | 55.71 |
| New Castle | 101,630 | 48.05 | 5.85 | 42.20 | 4,883 | 595 | 4,289 | 2,033 | 2,256 | 47.40 |
| Grand Valley | 108,130 | 41.00 | 10.40 | 30.60 | 4,434 | 1,125 | 3,309 | 2,163 | 1,146 | 65.37 |
| Silt | 83,410 | 94.27 | 45.94 | 48.33 | 7,863 | 3,837 | 4,031 | 1,668 | 2,363 | 41.38 |
| Gilpin County— | | | | | | | | | | |
| Central City | 371,577 | 60.31 | 25.00 | 35.31 | 22,409 | 9,289 | 13,120 | 7,432 | 5,688 | 56.65 |
| Grand County— | | | | | | | | | | |
| Kremmling | 144,200 | 51.00 | 11.96 | 39.04 | 7,355 | 1,725 | 5,630 | 2,884 | 2,746 | 51.23 |
| Hot Sulphur Spgs... | 145,410 | 40.42 | 7.00 | 33.42 | 5,878 | 1,018 | 4,860 | 2,908 | 1,952 | 59.83 |
| Granby | 55,310 | 20.10 | | 20.10 | 1,112 | | 1,112 | 1,106 | 6 | 99.46 |
| Gunnison County— | | | | | | | | | | |
| Gunnison | 1,354,660 | 46.20 | 12.26 | 33.94 | 62,585 | 16,608 | 45,977 | 27,093 | 18,884 | 58.93 |
| Crested Butte | 243,185 | 62.65 | 25.70 | 36.95 | 15,236 | 6,250 | 8,986 | 4,864 | 4,122 | 54.13 |
| Marble | 106,625 | 40.70 | 3.80 | 36.90 | 4,340 | 405 | 3,935 | 2,133 | 1,801 | 54.22 |
| Pitkin | 42,350 | 39.95 | 7.35 | 32.60 | 1,692 | 311 | 1,381 | 897 | 534 | 61.33 |
| Hinsdale County— | | | | | | | | | | |
| Lake City | 83,670 | 53.14 | 6.00 | 47.14 | 4,446 | 502 | 3,944 | 1,673 | 2,271 | 42.42 |
| Huerfano County— | | | | | | | | | | |
| Walsenburg | 2,539,120 | 49.00 | 5.40 | 43.60 | 124,417 | 13,711 | 110,706 | 50,782 | 59,924 | 45.87 |
| La Veta | 245,905 | 57.40 | 3.40 | 54.00 | 14,115 | 836 | 13,279 | 4,918 | 8,361 | 37.04 |
| Jackson County— | | | | | | | | | | |
| Walden | 174,704 | 42.50 | 10.88 | 31.62 | 7,425 | 1,901 | 5,524 | 3,494 | 2,030 | 63.25 |
| Jefferson County— | | | | | | | | | | |
| Arvada | 624,655 | 51.00 | 2.00 | 49.00 | 31,857 | 1,249 | 30,608 | 12,493 | 18,115 | 40.82 |
| Edgewater | 413,660 | 58.80 | 3.30 | 55.50 | 24,323 | 1,365 | 22,958 | 8,273 | 14,685 | 36.04 |
| Morrison | 90,460 | 55.70 | | 55.70 | 5,373 | | 5,373 | 1,929 | 3,444 | 35.90 |
| Mountain View | 161,100 | 43.70 | 3.80 | 39.90 | 7,040 | 612 | 6,428 | 3,222 | 3,206 | 50.12 |
| Golden | 1,253,685 | 55.30 | 6.00 | 49.30 | 69,329 | 7,522 | 61,807 | 25,074 | 36,733 | 40.57 |
| Kiowa County— | | | | | | | | | | |
| Eads | 363,376 | 33.50 | | 33.50 | 12,173 | | 12,173 | 7,268 | 4,905 | 59.71 |
| Haswell | 64,758 | 30.86 | | 30.86 | 1,998 | | 1,998 | 1,295 | 703 | 64.81 |

## APPENDIX A—Continued

Effect on Local Government Finances in Colorado of Proposed Constitutional Tax Limitation Amendment

| | Assessed Valuation (1) | Total 1936 Levy (2) | Total Debt Levy (3) | Total 1936 Taxes Current Operation (4) | Total Taxes (5) | Taxes for Debt Service (6) | Taxes for Current Operation (7) | Amount Which Could be Raised by 20 Mill Levy (8) | Deficit in Current Operation (9) | Per Cent of Present Revenue Which Would be Available Under 20 Mill Levy (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| Kit Carson County— | | | | | | | | | | |
| Burlington | 783,567 | 62.72 | 21.00 | 41.72 | 49,145 | 16,456 | 32,690 | 15,671 | 17,019 | 47.94 |
| Bethune | 50,395 | 59.72 | 20.00 | 39.72 | 3,010 | 1,008 | 2,002 | 1,008 | 994 | 50.35 |
| Stratton | 288,742 | 59.37 | 18.30 | 41.07 | 17,143 | 5,284 | 11,859 | 5,775 | 6,084 | 48.70 |
| Vona | 88,699 | 48.95 | 5.60 | 43.35 | 4,342 | 497 | 3,845 | 1,774 | 2,071 | 46.14 |
| Seibert | 163,260 | 57.85 | 17.40 | 40.45 | 9,445 | 2,841 | 6,604 | 3,265 | 3,339 | 49.44 |
| Flagler | 320,527 | 53.37 | 20.50 | 32.87 | 17,107 | 6,571 | 10,536 | 6,411 | 14,125 | 60.85 |
| Lake County— | | | | | | | | | | |
| Leadville | 1,156,345 | 77.55 | 6.00 | 71.55 | 89,675 | 6,938 | 82,736 | 23,127 | 59,609 | 27.95 |
| La Plata County— | | | | | | | | | | |
| Durango | 3,197,370 | 59.73 | 11.65 | 48.08 | 190,979 | 37,249 | 153,730 | 63,947 | 89,753 | 41.60 |
| Animas City | 107,295 | 58.78 | 16.40 | 42.38 | 6,307 | 1,760 | 4,547 | 2,146 | 2,401 | 47.20 |
| Bayfield | 65,545 | 66.50 | 22.90 | 43.60 | 4,359 | 1,501 | 2,858 | 1,311 | 1,547 | 45.87 |
| Ignacio | 91,660 | 48.25 | 2.91 | 45.34 | 4,423 | 267 | 4,156 | 1,833 | 2,323 | 44.10 |
| Larimer County— | | | | | | | | | | |
| Fort Collins | 7,903,530 | 50.00 | 7.44 | 42.56 | 395,177 | 58,802 | 336,374 | 158,071 | 178,303 | 46.99 |
| Loveland | 3,059,090 | 40.60 | .33 | 40.27 | 124,199 | 1,009 | 123,190 | 61,182 | 62,008 | 49.66 |
| Berthoud | 549,060 | 33.23 | 6.39 | 26.84 | 18,245 | 3,508 | 14,737 | 10,981 | 3,756 | 74.51 |
| Wellington | 229,520 | 54.60 | 21.27 | 33.33 | 12,532 | 4,882 | 7,650 | 4,590 | 3,060 | 60.00 |
| Estes Park | 653,760 | 47.20 | 6.53 | 40.67 | 30,857 | 4,269 | 26,588 | 13,075 | 13,513 | 49.18 |
| Timnath | 77,510 | 41.70 | 13.93 | 27.77 | 3,232 | 1,080 | 2,152 | 1,550 | 602 | 72.03 |
| Las Animas County— | | | | | | | | | | |
| Aguilar | 420,444 | 57.00 | 3.00 | 54.00 | 23,965 | 1,261 | 22,704 | 8,409 | 14,295 | 37.04 |
| Branson | 97,706 | 63.50 | 4.50 | 59.00 | 6,204 | 440 | 5,765 | 1,954 | 3,811 | 33.89 |
| Trinidad | 7,778,064 | 57.40 | 4.40 | 53.00 | 446,461 | 34,223 | 412,237 | 155,561 | 256,676 | 37.74 |
| Lincoln County— | | | | | | | | | | |
| Limon | 594,840 | 48.50 | 3.28 | 45.22 | 28,850 | 1,951 | 26,899 | 11,897 | 15,002 | 44.23 |
| Hugo | 431,156 | 41.95 | 7.92 | 34.03 | 18,087 | 3,415 | 14,672 | 8,623 | 6,049 | 58.77 |
| Arriba | 170,000 | 29.65 | 3.85 | 25.80 | 5,041 | 655 | 4,386 | 3,400 | 986 | 77.52 |
| Genoa | 112,135 | 35.97 | 3.79 | 32.18 | 4,034 | 425 | 3,609 | 2,243 | 1,366 | 62.15 |
| Logan County— | | | | | | | | | | |
| Sterling | 4,621,890 | 43.83 | 14.24 | 29.59 | 202,578 | 65,816 | 136,762 | 92,438 | 44,324 | 67.59 |
| Fleming | 187,125 | 60.56 | 29.53 | 31.03 | 11,332 | 5,526 | 5,806 | 3,743 | 2,063 | 64.47 |
| Peetz | 121,325 | 60.43 | 19.79 | 41.14 | 7,331 | 2,340 | 4,991 | 2,427 | 2,564 | 48.63 |
| Crook | 107,165 | 63.79 | 30.17 | 33.62 | 6,836 | 3,233 | 3,603 | 2,143 | 1,460 | 59.48 |

# APPENDIX A—Continued

## Effect on Local Government Finances in Colorado of Proposed Constitutional Tax Limitation Amendment

| | Assessed Valuation (1) | Total 1936 Levy (2) | Total Debt Levy (3) | Total 1936 Taxes Current Operation (4) | Total Taxes (5) | Taxes for Debt Service (6) | Taxes for Current Operation (7) | Amount Which Could be Raised by 20 Mill Levy (8) | Deficit in Current Operation (9) | Per Cent of Present Revenue Which Would be Available Under 20 Mill Levy (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| Logan County (Cont'd) | | | | | | | | | | |
| Merino | 97,590 | 56.23 | 23.44 | 32.79 | 5,487 | 2,287 | 3,200 | 1,952 | 1,248 | 61.00 |
| Iliff | 88,620 | 57.97 | 24.74 | 33.23 | 5,137 | 2,192 | 2,945 | 1,772 | 1,173 | 60.17 |
| Mesa County— | | | | | | | | | | |
| Grand Junction | 7,130,977 | 50.82 | 3.08 | 47.74 | 362,396 | 21,963 | 340,433 | 142,620 | 197,813 | 41.89 |
| Fruita | 396,709 | 77.18 | 8.18 | 69.00 | 30,618 | 3,245 | 27,373 | 7,934 | 19,439 | 28.98 |
| Palisade | 440,995 | 69.44 | 5.28 | 64.16 | 30,622 | 2,328 | 28,294 | 8,820 | 19,474 | 31.17 |
| De Beque | 126,542 | 66.27 | 5.43 | 60.84 | 8,386 | 687 | 7,699 | 2,531 | 5,161 | 32.87 |
| Collbran | 114,763 | 50.72 | 5.68 | 45.04 | 5,821 | 652 | 5,169 | 2,295 | 2,874 | 44.40 |
| Mineral County— | | | | | | | | | | |
| Creede | 150,690 | 40.17 | 7.00 | 33.17 | 6,053 | 1,055 | 4,998 | 3,014 | 1,984 | 60.30 |
| Moffat County— | | | | | | | | | | |
| Craig | 859,835 | 43.40 | 6.00 | 37.40 | 37,317 | 5,159 | 32,158 | 17,197 | 14,961 | 53.48 |
| Montezuma County— | | | | | | | | | | |
| Mancos | 239,716 | 60.54 | 8.00 | 52.54 | 14,512 | 1,918 | 12,595 | 4,794 | 7,801 | 38.06 |
| Dolores | 245,237 | 63.54 | 4.00 | 59.54 | 15,582 | 981 | 14,601 | 4,905 | 9,696 | 33.59 |
| Cortez | 455,737 | 60.54 | 4.40 | 56.14 | 27,590 | 2,005 | 25,585 | 9,115 | 16,470 | 35.63 |
| Montrose County— | | | | | | | | | | |
| Montrose | 2,002,295 | 50.38 | 1.30 | 49.08 | 110,952 | 2,863 | 108,089 | 40,046 | 68,043 | 37.05 |
| Olathe | 298,545 | 63.04 | 19.80 | 43.24 | 18,820 | 5,911 | 12,909 | 5,971 | 6,938 | 46.25 |
| Nucla | 49,855 | 62.26 | 16.80 | 45.46 | 3,104 | 837 | 2,266 | 997 | 1,269 | 44.00 |
| Morgan County— | | | | | | | | | | |
| Fort Morgan | 2,813,085 | 35.80 | 3.47 | 32.33 | 100,708 | 9,761 | 90,947 | 56,262 | 34,685 | 61.86 |
| Brush | 1,251,905 | 47.50 | 3.50 | 44.00 | 59,465 | 4,382 | 55,083 | 25,038 | 30,046 | 45.45 |
| Hillrose | 110,455 | 34.00 | 3.50 | 30.50 | 3,755 | 387 | 3,369 | 2,209 | 1,160 | 65.57 |
| Otero County— | | | | | | | | | | |
| La Junta | 4,128,826 | 43.50 | 2.00 | 41.50 | 179,604 | 8,258 | 171,346 | 82,577 | 88,769 | 48.19 |
| Swink | 143,619 | 43.20 | 9.30 | 33.90 | 6,204 | 1,336 | 4,869 | 2,872 | 1,997 | 58.99 |
| Rocky Ford | 2,075,479 | 47.50 | 10.31 | 37.19 | 98,595 | 21,398 | 77,187 | 41,510 | 35,677 | 53.78 |
| Manzanola | 414,839 | 40.80 | 5.00 | 35.80 | 16,925 | 2,074 | 14,851 | 8,297 | 6,554 | 55.87 |
| Fowler | 626,119 | 45.70 | 12.00 | 33.70 | 28,614 | 7,513 | 21,100 | 12,522 | 8,578 | 59.35 |
| Cheraw | 90,991 | 43.10 | 10.00 | 33.10 | 3,922 | 1,910 | 3,012 | 1,820 | 1,192 | 60.42 |
| Ouray County— | | | | | | | | | | |
| Ouray | 364,474 | 57.90 | 2.50 | 55.40 | 21,103 | 911 | 20,192 | 7,289 | 12,903 | 36.10 |
| Ridgeway | 114,375 | 58.70 | 5.50 | 53.20 | 6,714 | 629 | 6,085 | 2,288 | 3,797 | 37.60 |

# APPENDIX A—Continued

Effect on Local Government Finances in Colorado of Proposed Constitutional Tax Limitation Amendment

| | Assessed Valuation (1) | Total 1936 Levy (2) | Total Debt Levy (3) | Total 1936 Taxes Current Operation (4) | Total Taxes (5) | Taxes for Debt Service (6) | Taxes for Current Operation (7) | Amount Which Could be Raised by 20 Mill Levy (8) | Deficit in Current Operation (9) | Per Cent of Present Revenue Which Would be Available Under 20 Mill Levy (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| Park County— | | | | | | | | | | |
| Alma | 169,625 | 27.50 | 1.47 | 26.03 | 4,665 | 249 | 4,415 | 3,393 | 1,022 | 76.85 |
| Fairplay | 262,900 | 35.70 | 5.00 | 30.70 | 9,385 | 1,314 | 8,071 | 5,258 | 2,813 | 65.15 |
| Phillips County— | | | | | | | | | | |
| Holyoke | 688,620 | 48.60 | 14.90 | 33.70 | 33,466 | 10,260 | 23,206 | 13,772 | 9,434 | 59.34 |
| Paoli | 95,080 | 30.20 | 4.60 | 25.60 | 2,871 | 437 | 2,434 | 1,902 | 502 | 78.14 |
| Haxtun | 478,360 | 47.10 | 7.10 | 40.00 | 22,530 | 3,396 | 19,134 | 9,567 | 9,567 | 50.00 |
| Pitkin County— | | | | | | | | | | |
| Aspen | 214,065 | 81.39 | 32.00 | 49.39 | 17,422 | 6,850 | 10,572 | 4,281 | 6,291 | 40.49 |
| Prowers County— | | | | | | | | | | |
| Granada | 159,844 | 37.10 | 3.10 | 34.00 | 5,930 | 496 | 5,434 | 3,197 | 2,237 | 58.83 |
| Hartman | 84,344 | 27.20 | 3.20 | 24.00 | 2,294 | 270 | 2,024 | 1,687 | 337 | 83.35 |
| Holly | 570,838 | 34.10 | 1.10 | 33.00 | 19,465 | 628 | 18,837 | 11,417 | 7,420 | 60.61 |
| Lamar | 2,458,973 | 43.00 | 5.00 | 38.00 | 105,735 | 12,295 | 93,440 | 49,179 | 44,261 | 52.63 |
| Wiley | 163,833 | 54.00 | 2.00 | 52.00 | 8,846 | 326 | 8,520 | 3,277 | 5,243 | 38.46 |
| Pueblo County— | | | | | | | | | | |
| Pueblo | 28,641,292 | 65.75 | 6.73 | 59.02 | 1,883,164 | 192,754 | 1,690,410 | 572,826 | 1,117,584 | 33.88 |
| Rio Blanco County— | | | | | | | | | | |
| Meeker | 485,285 | 59.40 | 15.70 | 43.70 | 28,825 | 7,618 | 21,207 | 9,706 | 11,501 | 45.77 |
| Rio Grande County— | | | | | | | | | | |
| Monte Vista | 1,359,955 | 60.10 | 18.33 | 41.77 | 81,733 | 24,927 | 56,806 | 27,199 | 29,607 | 47.88 |
| Del Norte | 426,620 | 52.20 | 14.20 | 38.00 | 22,269 | 6,058 | 16,211 | 8,532 | 7,679 | 52.63 |
| Routt County— | | | | | | | | | | |
| Steamboat Springs | 806,845 | 58.70 | 15.50 | 43.20 | 47,361 | 12,506 | 34,855 | 16,137 | 18,718 | 46.30 |
| Hayden | 209,250 | 50.60 | 12.50 | 38.10 | 10,588 | 2,615 | 7,973 | 4,185 | 3,788 | 52.49 |
| Oak Creek | 331,120 | 58.40 | 22.50 | 35.90 | 19,337 | 7,450 | 11,887 | 6,623 | 5,264 | 55.72 |
| Yampa | 95,600 | 55.70 | 11.80 | 43.90 | 5,324 | 1,128 | 4,196 | 1,912 | 2,284 | 45.57 |
| Saguache County— | | | | | | | | | | |
| Bonanza | 15,149 | 26.40 | | 26.40 | 399 | | 399 | 303 | 96 | 75.94 |
| Center | 363,307 | 44.40 | 8.50 | 35.90 | 16,130 | 3,088 | 13,042 | 7,266 | 5,776 | 55.71 |
| Crestone | 15,245 | 32.30 | | 32.30 | 492 | | 492 | 305 | 187 | 61.99 |
| Moffat | 77,223 | 33.00 | 4.00 | 29.00 | 3,318 | 307 | 3,011 | 1,544 | 1,467 | 51.28 |
| Saguache | 294,233 | 44.40 | 9.09 | 35.31 | 13,063 | 2,674 | 10,390 | 5,985 | 4,405 | 57.60 |

# APPENDIX A—Continued

Effect on Local Government Finances in Colorado of Proposed Constitutional Tax Limitation Amendment

| | Assessed Valuation (1) | Total 1936 Levy (2) | Total Debt Levy (3) | Total 1936 Taxes Current Operation (4) | Total Taxes (5) | Taxes for Debt Service (6) | Taxes for Current Operation (7) | Amount Which Could be Raised by 20 Mill Levy (8) | Deficit in Current Operation (9) | Per Cent of Present Revenue Which Would be Available Under 20 Mill Levy (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| San Juan County— | | | | | | | | | | |
| Silverton | 430,100 | 51.40 | 6.90 | 44.50 | 22,107 | 2,968 | 19,139 | 8,602 | 10,537 | 44.94 |
| Eureka | 24,697 | 31.40 | 6.90 | 24.50 | 775 | 170 | 605 | 494 | 111 | 81.65 |
| San Miguel County— | | | | | | | | | | |
| Telluride | 516,170 | 49.40 | 2.00 | 47.40 | 25,498 | 1,032 | 24,466 | 10,323 | 14,143 | 42.19 |
| Norwood | 166,210 | 50.90 | 5.00 | 45.90 | 8,460 | 831 | 7,629 | 3,324 | 4,305 | 43.57 |
| Norwood | 166,210 | 50.90 | 11.00 | 39.90 | 8,460 | 1,829 | 6,631 | 3,324 | 3,307 | 50.13 |
| Sedgwick County— | | | | | | | | | | |
| Julesburg | 848,460 | 37.84 | 1.96 | 35.88 | 32,105 | 1,662 | 30,443 | 6,969 | 13,476 | 55.74 |
| Sedgwick | 207,990 | 57.25 | 5.26 | 51.99 | 11,907 | 1,094 | 10,813 | 4,160 | 6,653 | 38.47 |
| Ovid | 299,320 | 48.52 | 3.93 | 44.59 | 14,523 | 1,176 | 13,347 | 5,986 | 7,361 | 44.85 |
| Summit County— | | | | | | | | | | |
| Breckenridge | 319,450 | 52.25 | 14.00 | 38.25 | 16,691 | 4,472 | 12,219 | 6,389 | 5,830 | 52.29 |
| Dillon | 63,335 | 28.25 | | 28.25 | 1,789 | | 1,789 | 1,267 | 522 | 70.82 |
| Recin | 12,865 | 22.25 | | 22.25 | 286 | | 286 | 257 | 29 | 89.86 |
| Teller County— | | | | | | | | | | |
| Cripple Creek | 426,770 | 90.10 | | 90.10 | 38,451 | | 38,451 | 8,535 | 29,916 | 22.20 |
| Victor | 323,960 | 92.10 | | 92.10 | 29,836 | | 29,836 | 6,479 | 23,357 | 21.72 |
| Goldfield | 75,650 | 42.40 | .30 | 42.10 | 3,207 | 22 | 3,185 | 1,513 | 1,672 | 47.50 |
| Woodland Park | 73,790 | 63.60 | 2.50 | 61.10 | 4,693 | 184 | 4,509 | 1,476 | 3,033 | 32.73 |
| Gillett | 12,410 | 72.10 | | 72.10 | 895 | | 895 | 248 | 647 | 27.71 |
| Lawrence | 5,480 | 57.10 | | 57.10 | 313 | | 313 | 110 | 203 | 35.14 |
| Green Mtn. Falls | 12,560 | 54.60 | 2.50 | 52.10 | 685 | 31 | 654 | 251 | 403 | 38.38 |
| Washington County— | | | | | | | | | | |
| Otis | 272,317 | 48.79 | 9.00 | 39.79 | 13,286 | 2,450 | 10,835 | 5,446 | 5,389 | 50.26 |
| Akron | 743,472 | 43.79 | 6.00 | 37.79 | 32,556 | 4,460 | 28,095 | 14,869 | 13,216 | 52.70 |
| Weld County— | | | | | | | | | | |
| Greeley | 9,726,240 | 58.20 | 14.47 | 43.73 | 566,067 | 140,739 | 425,328 | 194,525 | 230,803 | 45.74 |
| Ault | 295,740 | 57.00 | 24.30 | 32.70 | 16,857 | 7,186 | 9,671 | 5,915 | 3,756 | 61.16 |
| Dacono | 46,220 | 67.60 | 22.00 | 45.60 | 3,124 | 1,017 | 2,107 | 924 | 1,183 | 43.85 |
| Eaton | 693,370 | 46.94 | 6.00 | 40.94 | 32,547 | 4,160 | 28,387 | 13,867 | 14,520 | 48.85 |
| Erie | 208,570 | 60.10 | 22.30 | 37.80 | 16,862 | 6,257 | 10,605 | 4,171 | 6,434 | 39.33 |
| Evans | 175,920 | 50.10 | 6.00 | 44.10 | 8,814 | 1,056 | 7,758 | 3,518 | 4,240 | 45.35 |
| Firestone | 49,990 | 68.10 | 33.90 | 34.20 | 3,404 | 1,695 | 1,709 | 1,000 | 709 | 58.51 |
| Fort Lupton | 804,400 | 41.10 | 8.00 | 33.10 | 33,061 | 6,435 | 26,626 | 16,088 | 10,538 | 60.42 |

# APPENDIX A—Continued

Effect on Local Government Finances in Colorado of Proposed Constitutional Tax Limitation Amendment

| | Assessed Valuation (1) | Total 1936 Levy (2) | Total Debt Levy (3) | Total 1936 Taxes Current Operation (4) | Total Taxes (5) | Taxes for Debt Service (6) | Taxes for Current Operation (7) | Amount Which Could be Raised by 20 Mill Levy (8) | Deficit in Current Operation (9) | Per Cent of Present Revenue Which Would be Available Under 20 Mill Levy (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| Weld County (Cont'd) | | | | | | | | | | |
| Frederick | 130,180 | 63.10 | 24.90 | 38.20 | 8,214 | 3,241 | 4,973 | 2,604 | 2,369 | 52.36 |
| Gilcrest | 70,910 | 36.60 | 3.00 | 33.60 | 2,595 | 213 | 2,382 | 1,418 | 964 | 59.53 |
| Grover | 99,050 | 69.60 | 32.30 | 37.30 | 6,894 | 3,199 | 3,695 | 1,981 | 1,714 | 53.61 |
| Hudson | 163,790 | 57.10 | 26.00 | 31.10 | 9,352 | 4,258 | 5,094 | 3,276 | 1,818 | 64.31 |
| Johnstown | 489,120 | 40.10 | 16.60 | 23.50 | 19,613 | 8,119 | 11,494 | 9,782 | 1,712 | 85.11 |
| Keenesburg | 162,490 | 48.10 | 15.30 | 32.80 | 7,816 | 2,486 | 5,330 | 3,250 | 2,080 | 60.98 |
| Keota | 35,540 | 64.10 | 27.50 | 36.60 | 2,278 | 977 | 1,301 | 711 | 590 | 54.65 |
| Kersey | 118,160 | 64.10 | 18.00 | 46.10 | 7,574 | 2,127 | 5,447 | 2,363 | 3,084 | 43.38 |
| La Salle | 257,990 | 48.60 | 9.00 | 39.60 | 12,538 | 2,322 | 10,216 | 5,160 | 5,056 | 50.51 |
| Meade | 132,410 | 31.10 | 7.70 | 23.40 | 4,118 | 1,020 | 3,098 | 2,648 | 450 | 85.47 |
| Milliken | 183,370 | 47.10 | 17.70 | 29.40 | 8,637 | 3,246 | 5,391 | 3,667 | 1,724 | 68.02 |
| Nunn | 123,690 | 49.10 | 15.50 | 33.60 | 6,073 | 1,917 | 4,156 | 2,474 | 1,682 | 59.53 |
| Pierce | 115,230 | 64.10 | 28.50 | 35.60 | 7,386 | 3,284 | 4,102 | 2,305 | 1,797 | 56.19 |
| Platteville | 239,050 | 55.10 | 22.70 | 32.40 | 13,171 | 5,426 | 7,745 | 4,781 | 2,964 | 61.99 |
| Raymer | 137,800 | 52.10 | 12.50 | 39.60 | 7,179 | 1,723 | 5,456 | 2,756 | 2,700 | 50.51 |
| Severance | 53,700 | 28.10 | 2.00 | 26.10 | 1,509 | 107 | 1,402 | 1,074 | 328 | 76.60 |
| Windsor | 678,600 | 47.10 | 9.20 | 37.90 | 31,962 | 6,243 | 25,719 | 13,572 | 12,147 | 52.77 |
| Yuma County— | | | | | | | | | | |
| Wray | 790,973 | 49.00 | 6.00 | 43.00 | 38,758 | 4,746 | 34,012 | 15,819 | 18,193 | 46.51 |
| Yuma | 677,242 | 45.00 | 5.00 | 40.00 | 30,476 | 3,386 | 27,090 | 13,545 | 13,545 | 50.00 |
| Eckley | 149,241 | 52.00 | 13.50 | 38.50 | 7,761 | 2,015 | 5,746 | 2,985 | 2,761 | 51.95 |
| Grand Total | $561,553.570 | | | | $23,033,563 | $2,711,830 | $20,321,733 | $11,232,505 | $9,089,128 | |

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