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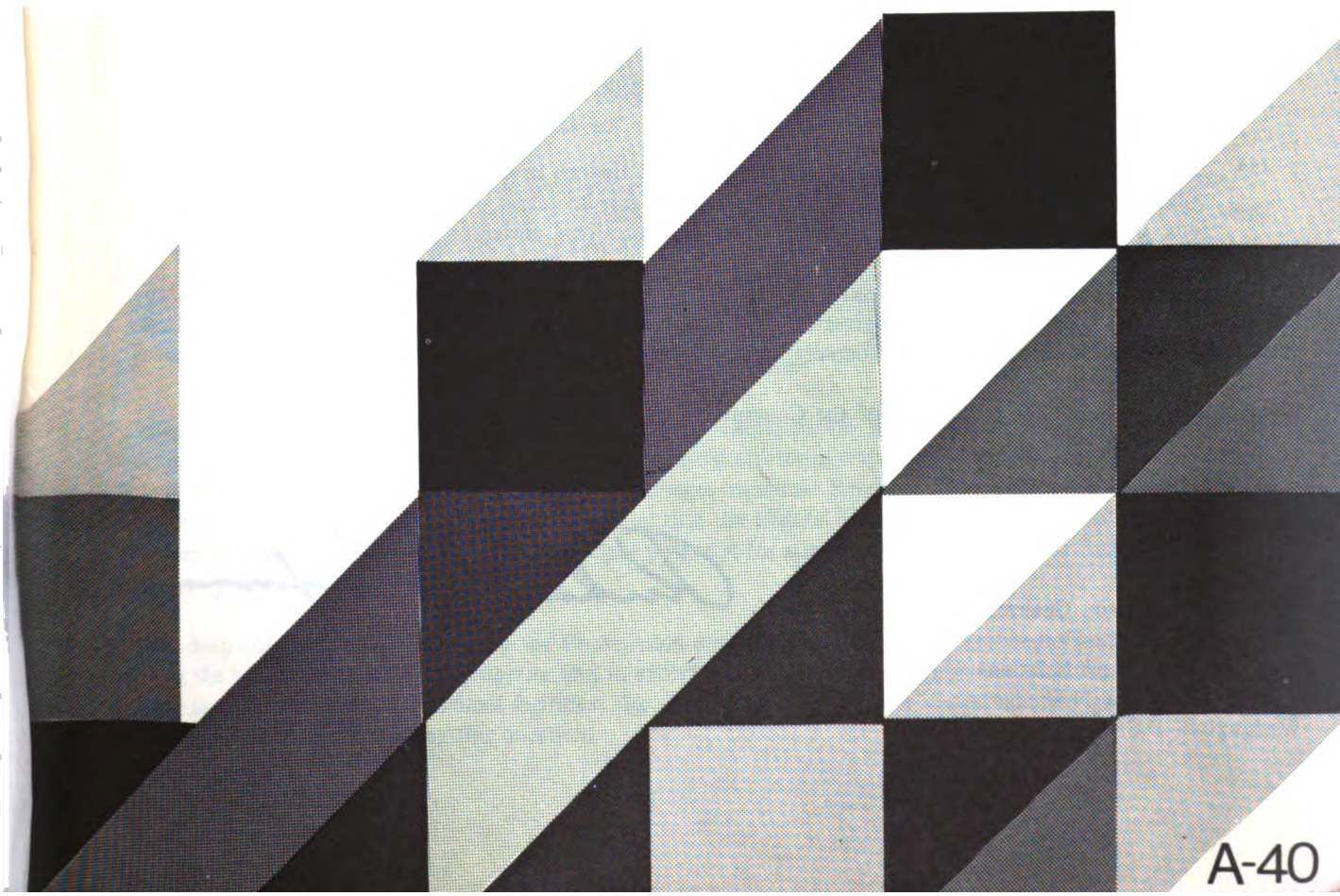
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Advisory Commission on Intergovernmental Relations
Washington, D.C. 20575

financing schools and property tax relief- a state responsibility

A COMMISSION REPORT



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THE WHITE HOUSE

WASHINGTON

January 20, 1972

Dear Bob:

One of the greatest challenges this Nation faces today is the need to reform our system of financing public education which, as you know, primarily depends on local property taxes. The President's Commission on School Finance, which I appointed in 1970, will be transmitting its recommendations to me in March on the over-all directions in which we should be moving.

Any major shift in current reliance on local school property taxes is likely to have a significant effect on the relationships among the Federal government, the states, and local governments. In our discussion last week with Neil McElroy, I requested the Advisory Commission on Intergovernmental Relations to undertake a study on this subject.

In particular, I would like the Commission to examine:

(1) the impact on intergovernmental relations of a tax reform proposal which would replace residential school property taxes with a Federal value added tax;

(2) whether a Federal value added tax is the best substitute for residential school property taxes;

(3) if a value added tax is to be utilized as a substitute for residential school property taxes (a) what should be the size and nature of the base of expenditures subject to the tax, and (b) what should be the type of income tax credit or other method which is utilized to eliminate otherwise regressive aspects of the tax;

(4) the best method for providing renter relief under a proposal which replaces residential school property taxes; and

(5) the best means of insuring, under a system of school finance in which the states have primary financing responsibility, that local school districts will be able to retain control of basic education decisions, including the provision of local programs of educational enrichment.

The problems are pressing, and I have asked you to complete such a study as soon as possible, and to keep me advised in the interim as to the progress of your study. You will have the complete cooperation and assistance of the Vice President, Secretary Connally and Secretary Richardson, as well as of the Domestic Council.

I very much appreciate the willingness of the Commission to undertake this effort.

Sincerely,

Richard Nixon

Mr. Robert Merriam, Chairman
Advisory Commission on
Intergovernmental Relations
726 Jackson Place, N.W.
Washington, D.C.

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ADVISORY
COMMISSION ON INTERGOVERNMENTAL RELATIONS
WASHINGTON, D.C. 20575

December 27, 1972

Dear Mr. President:

In response to your request of January 20, 1972, the Advisory Commission On Intergovernmental Relations has conducted an exhaustive – but expedited – study of the proposal referred to us by you for a major Federal program of residential property tax relief conditioned on expanded State financing for public education and underpinned by a new or expanded Federal tax such as the value – added tax. The complexities of these issues and their intergovernmental ramifications are obvious.

The Commission is deeply conscious of the serious problems posed both by the current judicial review of the discriminatory aspects of relying on locally-raised property taxes as the primary source of financing public education and by growing public aversion to the rapidly rising property tax levies in many localities to meet the increasing costs of education. We commend you for focusing public attention on these twin problems. In particular, we share your hope that these difficulties can be solved through legislative action rather than by detailed judicial mandating.

Our studies have caused us to conclude that, despite the seriousness of the twin problems indicated above, a massive new Federal program designed specifically to bring about property tax relief is neither necessary nor desirable. However, we again restated our earlier sponsorship of State-supported property tax relief for hard-hit low income property tax-payers, particularly the elderly (the so-called "circuit breaker"), but the majority of the Commission concluded that direct Federal intervention was not necessary.

We support emphatically your suggestion (and our previous recommendation) that the States assume a greater share of public education financing, which if achieved, would greatly facilitate local property tax relief. However, our studies led us to conclude that with very few exceptions the States (particularly with the revenue sharing and beginning of welfare relief granted by the last Congress) have the taxing capability to satisfy the judicial concern so far expressed as to intra-state disparities in educational spending.

Several additional Commission conclusions warrant special attention.

First, while the property tax clearly is unpopular with the general public, the "experts" are by no means united in denouncing it. A strong body of opinion urges substantial efforts to improve assessment procedures and administration. To this end, the Advisory Commission on Intergovernmental Relations has reaffirmed its earlier package of "reform" proposals, and additionally has suggested that the Federal Government take steps to coordinate and strengthen existing Federal programs that have clear potential for stimulating improvement of State and local assessment procedures.

Second, deep concern was evidenced by the Commission over the slow progress in evolving effective means of assessing the worth of educational programs and in evolving more innovative approaches toward such matters as multiple and year–round use of school facilities. We plan to consult with our special advisory group of national school organizations in addressing this question.

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Third, while we did not recommend a Federal value–added tax in light of our conclusion that a massive Federal property tax relief program was not warranted, we did reach some conclusions about overall tax policies. It became crystal-clear to us that this country must evolve a mechanism whereby the impact of all taxes – and major new tax proposals – can be assessed. While the Congressional hearings and debate on revenue sharing for the first time importantly focused on the intergovernmental implications of tax legislation, no continuing means to consider the effect of the Federal impact on State and local financing requirements, and vice versa, yet exists. With 32 percent of our gross national product now going into the government sector, we cannot afford the luxury of keeping the taxing and spending programs of the several levels of government in separate pockets. A National Fiscal Policy must be evolved, and a mechanism developed continuously to review and up-date information about all governmental revenue–raising programs. The Advisory Commission on Intergovernmental Relations has determined to develop more detailed recommendations concerning this critical problem.

In conclusion, Mr. President, the Commission would like to reaffirm its belief that our unique federal system of divided governmental responsibilities can – yes, must – be continuously improved. As we approach the 200th anniversary of our country's founding, we applaud your continuing efforts to strengthen this system.

Robert E. Merriam
Chairman

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preface

This report on property taxation and public school finance is the first study undertaken by the Advisory Commission on Intergovernmental Relations in response to a specific request from the President. Such a request was made by President Nixon in his State of the Union Message on January 20, 1972.

The Commission accepted this charge at its meeting of February 10, 1972, considered various aspects of the study at three successive meetings and approved the present report at its meeting on December 14-15, 1972.

Because of the extreme importance and timeliness of the subject, the Commission was augmented by eight Special Advisors drawn from State and local government. These advisors participated actively in the Commission's deliberations and their valuable assistance is gratefully acknowledged. As Chairman, I also availed myself of the counsel of a panel of representatives from the major organizations concerned with elementary and secondary education.

In addition to this policy report, the Commission will also issue two information reports covering the value-added tax and alternative Federal revenue sources, and recent State progress in strengthening the property tax.

Robert E. Merriam
Chairman

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acknowledgements

This study was carried out by the Taxation and Public Finance Staff under the general direction of John Shannon, Assistant Director. Major responsibility for the staff work was shared by L. Richard Gabler, Jacob M. Jaffe and Will S. Myers who were assisted with various aspects of the research by John Gambill, Charles Revier and Paul Van de Water. The report was edited by Rochelle Stanfield from manuscripts prepared by a patient secretarial-clerical team that included Gloria Ward, Elizabeth Omohundro, Ruthamae Phillips and Muriel White.

The Commission and its staff acknowledges the benefits derived from discussions of tax and fiscal matters with a diverse group of practitioners and academicians. Those who participated in a series of "thinkers" and "critics" sessions at different sgages of the study included: Henry J. Aaron, William C. Antoine, Kenneth Back, Martin Bailey, John Behrens, Gerard Brannon, Arnold Cantor, William G. Colman, Edwin H. Cohen, Charles F. Conlon, John Copeland, Billy D. Cook, John Due, L. L. Ecker-Racz, Lewis Engman, Jean M. Flanigan, Roger Freeman, Alfred Friendly, Jr., Alvin From, Mason Gaffney, Ronald B. Gold, Delphis C. Goldberg, Michael Gratz, C. Lowell Harriss, Frederick Hickman, Christopher Jencks, James A. Kelly, I. M. Labovitz, Richard W. Lindholm, Allen D. Manvel, Patrick Matthews, Gerald H. Miller, Roy Morey, Dick Netzer, William H. Oakland, Oliver Oldman, James A. Papke, Hank Paulson, Robert D. Reischauer, William Riggan, Bernard Saffran, Kenneth Sanden, H. Reed Saunders, Frank Schiff, Burns Stanley, Robert Statham, Robert F. Steadman, Michael P. Timpane, Mabel Walker and Ronald B. Welch.

The major organizations representing elementary and secondary education interests formed a special advisory group composed of Fred G. Burke, Jean M. Flanigan, Mrs. Walter Kimmel, Paul Miller, Carl Pforzheimer, Jr., David Selden and August Steinhilber. The Chairman and the staff are grateful for the counsel provided by this group under the chairmanship of Mr. Pforzheimer.

Special thanks are due Kenneth Back, Roger Freeman, Mason Gaffney, Dick Netzer and Mabel Walker, who presented their views on property tax relief and reform to the Commission during a panel discussion on September 14, 1972.

We also gratefully acknowledge the help of the Bureau of the Census and the Office of Education as well as numerous State and local government officials who responded to the staff's requests for information.

Full responsibility for content and accuracy rests, of course, with the Commission and its staff.



William R. MacDougall
Executive Director



John Shannon
Assistant Director

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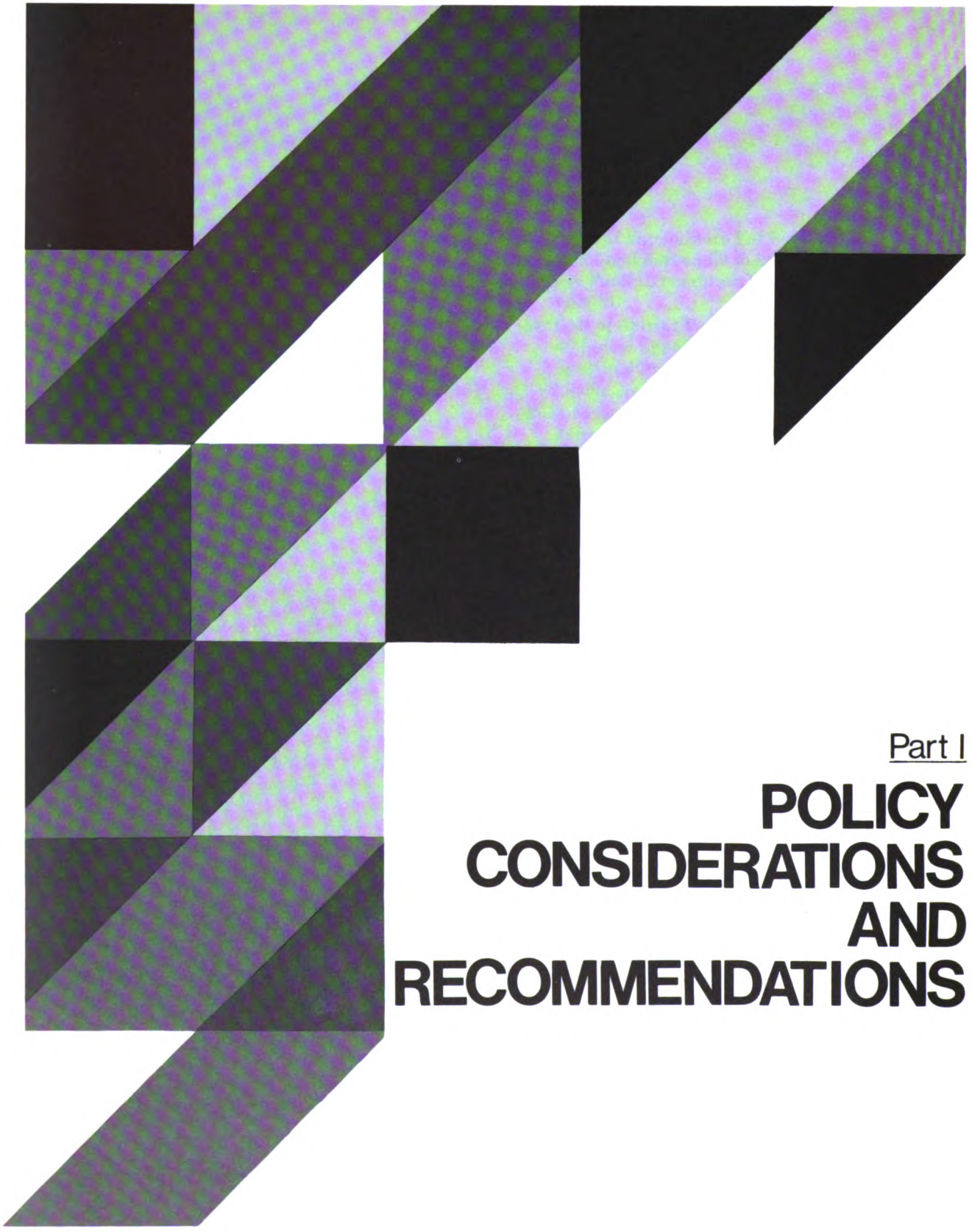
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Part I

POLICY CONSIDERATIONS AND RECOMMENDATIONS

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chapter I

policy considerations and recommendations

In response to President Nixon's request of January 20, 1972, the Advisory Commission on Intergovernmental Relations conducted a study of a proposal for a major Federal program of residential property tax relief conditioned on State assumption of most of the cost of financing local schools and underpinned by a new or expanded Federal tax such as a value-added levy. This proposal was designed to deal with two interrelated problems—growing public resistance in many areas to higher property taxes and the current legal attack on heavy reliance on the local property tax as the primary source of funding local schools.

Before this Commission completed its investigation it considered four separate proposals for Federal entry into the property tax-school finance fields. Specifically, the Commission considered the need and the desirability of both a major and a limited Federal property tax relief action. The Commission also considered the desirability of a Federal aid program designed to hurry history along on property tax assessment reform. Finally, the Commission evaluated a proposal that called for a temporary and limited Federal incentive program designed to encourage the States to reduce fiscal disparities among school districts within each State.

Criteria For National Government Involvement

These proposals raised a critical intergovernmental issue—what criteria or tests should the Commission employ in order to evaluate the merits of proposals that call on the National government to take remedial action in areas where the States have had exclusive policy responsibility? It is necessary to raise this hard question for several reasons.

With each passing day it appears easier to justify or at least rationalize a Federal "spillover" interest in areas of traditional State-local concern. Witness the proliferation of Federal categorical aid programs, which have grown in number from a handful ten years ago to well over 500 now.

In urging Congressional enactment of revenue sharing legislation, this Commission recently noted that heavy reliance on the narrow categorical aid approach had tipped the power scales in favor of the National Government:

> The Congress is now dangling almost 500 large and small conditional aid carrots collectively worth more than $25 billion a year before State and local governments. The hope was that each conditional aid would provide sufficient financial incentive to spur the States and localities on to greater action in some more or less narrowly defined field of "National interest." But there is overwhelming evidence that State and local governments cannot readily absorb such a large

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number of diverse programs over restricted periods of time . . .

Progressive loss of freedom of choice, therefore, is an additional price that must be paid by all State and local jurisdictions for categorical aid dollars. Professor Walter Heller, both a keen student of our intergovernmental fiscal system and a prominent member of the liberal establishment, has pointed up the dangers of this trend toward centralized power. "Unless this trend is reversed," he wrote, "Federal aids may weave a web of particularism, complexity, and Federal direction which will significantly inhibit a State's freedom of movement." The illusion of Congressional "control" has in reality disappeared into the dark jungles of bureaucratic red-tape.[1]

The uneconomical allocation of public sector funds is an additional price that often must be paid for Federal categorical aid. A public service (or tax relief program) at some nationwide level may be perceived as good national policy but when extended uniformly across the country is extremely costly and often represents the solution to a problem that is not universal. Furthermore, the high cost of providing National solutions in a nation of diverse regional and local attitudes and needs results in expanding the public sector, thus raising questions concerning its appropriate relationship to the private sector.

Determination of National Interest—Two Tests

If our federal system is to retain its integrity it is not enough for Congress to build greater flexibility into its present aid system by means of general revenue sharing and the consolidation of narrow categorical aid programs into broader and more manageable block grants. Congress should also scrutinize closely all demands for the enactment of new Federal categorical aid programs.

In evaluating each of the four proposals that called on the National government to move into an area that heretofore had been the exclusive domain of State governments, this Commission employed two tests to determine whether the proposal could be justified on the grounds of a strong National government interest.

- The problem that precipitated the demand for Federal intervention stems from a head-on conflict—a serious undercutting of a major Federal program objective by policies of most States.
- The intergovernmental conflict can be resolved only by Federal government action.

The "irreconcilable conflict" test for detecting the presence or absence of a strong National interest is so rigorous that it screens out all but the most persuasive proposals for new Federal initiatives in areas of traditional State-local concern. It is necessary to use this rigorous test in order to check or at least slow down the steady growth of Federal categorical aid. Simply to allege that a specific categorical aid proposal will "promote the general welfare" does not sufficiently justify its adoption on the basis of a strong National interest.

The Major Property Tax Relief Issue

The Commission was asked among other things to evaluate a proposal that had two major objectives:

- To cut the average residential property tax (approximately 50 per cent) by removing that part of the property tax that underwrites a local school operation.
- To eliminate fiscal disparities among school districts in each State by encouraging the States to assume most of the cost of financing public elementary and secondary schools.

In order to accomplish these two objectives, the plan called for a Federal value-added tax designed to yield $18 billion the first year. Part of this revenue yield—approximately $5 to $6 billion—would be set aside to underwrite a system of personal income tax credits and rebates thereby removing the regressivity of the value-added tax for most taxpayers.

The remaining $12 to $13 billion was to be distributed by the Federal government to the States for the support of public secondary and elementary education *provided* the States agreed to remove the local school tax on residential and nonresidential property and also agreed to refrain from levying a State tax on residential property for the support of local schools.

After a thorough examination of this proposal and the issues raised by it, this Commission concluded that a massive Federal effort designed both to cut the residential property tax substantially throughout the country and to encourage States to assume most of the cost for financing local schools was neither necessary nor desirable.

This negative conclusion is based on the following findings.

While there is clear evidence that some segments of the population—especially the low-income elderly—are seriously burdened by the property tax, the evidence does not support the need for a Federal program designed to reduce substantially the prop-

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erty tax of every homeowner in the Nation.* The simplest illustration of this lack of evidence to support general property tax reduction is that use of the property tax ranges in intensity from $41 per capita in Alabama to $296 per capita in California.

Although there are areas of the country where the property taxes are burdensome, not all homeowners, even in the high property tax jurisdictions, are overburdened by this levy. In some areas State and local income and sales taxes now take a larger bite out of the budgets of the families with average incomes than does the residential property tax and in most areas State and local income and sales taxes are growing at a faster rate than is the property tax. The Social Security tax now places a heavier burden on the average family than does the residential property tax while the Federal income tax is nearly three times as burdensome.

Most significantly, our study fails to reveal a strong National interest in a program designed to provide across-the-board tax reduction for every homeowner in the United States. Specifically, there is no evidence to suggest that a massive residential property tax program is necessary to protect a vital Federal interest, nor can it be demonstrated that the relatively high property taxes imposed by States such as New Jersey and New Hampshire cause serious economic harm beyond their boundaries.

It would also be extremely difficult to develop a Federal program capable of distributing tax relief equitably across the Nation. The tremendous variations in the use of the property tax would create unequal windfalls both between jurisdictions and among various classes of property owners within the same jurisdiction. The so-called urban land speculators would be twice blessed by a major property tax reduction. First, the vacant land, like all taxable realty, would have more value in the market, and second, the cash cost of holding land off the market would be sharply reduced. Moreover, a proposal that stresses residential property tax relief but not business property tax relief might influence States to place heavier tax burdens on business property.

A multi-billion dollar Federal program of tax relief-school finance reform cannot be justified on the grounds that States lack the fiscal capacity necessary to place their local school districts on an equal fiscal footing. Our analysis reveals that only a few States would experience fiscal difficulty in bringing per-pupil expenditures to the relatively high levels needed to comply with the principle enunciated in *Serrano v. Priest*, the California Supreme Court decision that first demanded equalization of school district fiscal resources. The great majority of States have the necessary untapped relative tax potential. New York, Vermont and Wisconsin, however, stand out as the States that would experience greatest fiscal difficulty because of their current heavy use of all State and local taxes.

In order to construct a truly effective property tax relief program, Congress would have to exercise unprecedented Federal control over both State and local tax policymakers. Not only would the National government have to force the States to refrain from use of a tax on residential property for school purposes, it would have to go further and encourage the States to place specific restraints on local government so as to prevent cities and counties from moving into the property tax area vacated by the schoolmen.

The prospect for State-financed property tax relief is not entirely bleak. For example, late in 1972 California enacted a $1.1 billion property tax relief-school finance reform program financed in part with Federal revenue sharing funds and in part through more intensive use of non-property taxes. Governors in at least ten other States were reported to favor the use of revenue sharing funds for property tax relief.

In the final analysis, however, "property tax relief" is something of an illusion because it requires either a reduction of public service or a shift to other forms of taxation—intensified use of income or general sales taxes or the imposition of a new tax such as the value-added levy.

Early in 1972, ACIR conducted a public opinion survey that indicated widespread agreement on the proposition that the property tax was the worst tax; but there was far less agreement on what the National government should do about it. Fourteen percent of the population favored an income tax substitute; 32 percent favored a consumer tax substitute (VAT); 44 percent opposed either the Federal income or consumer tax substitute; and 10 percent couldn't make up their mind.

The Commission concludes that the interests of our federal system are best served when States retain primary responsibility for shaping policies dealing with general property tax relief and intrastate equalization of school finances—two areas that traditionally have been within the exclusive domain of State policy-makers.

Limited Property Tax Relief Issue

This Commission considered a proposal for the National government to provide an incentive grant to the States designed to encourage them to provide

* This statement should not be interpreted as an argument against *indirect* property tax relief that could result from Federal revenue sharing or Federal assumption of welfare financing.

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limited property tax relief to low-income homeowners and renters.

The majority of the Commission members rejected this proposal because it could not meet both National interest tests. Admittedly, there is considerable evidence to support the contention that this particular Federal aid proposal could pass the first test because to date most States have not shielded low-income homeowners and renters from property tax overload situations. This State failure, in turn, clearly undercuts a major National program objective of income support especially through the Social Security system. In the view of the majority of the Commission, however, the proposal failed to meet the second National interest test—that only Federal action could resolve this intergovernmental conflict.

The Commission reaffirms its 1967 recommendation that States shield basic family income from undue burdens imposed by the property tax.

Given a few more years, there is reason to believe that the States will resolve the problem of property tax overburden especially for the low-income elderly. This rather optimistic assessment rests on the fact that the "circuit-breaker" idea has such basic popular appeal that it should be adopted in those States where it is most needed in a relatively short period of time. Over the last few years, 26 States and the Canadian Province of Ontario have enacted programs designed to shield low-income elderly homeowners and, in many cases, renters from property tax overload situations.

The 14 States that have now enacted circuit-breaker laws each have chosen a unique plan. As long as States retain the initiative for providing property tax relief for low-income households, better circuit-breaker techniques will continue to be developed.

It can also be argued that Federal incentive grants should not have to be used to induce States to do something that is morally right, highly popular, and relatively inexpensive. All of the States have sufficient fiscal capacity to underwrite a limited property tax relief program for low-income households.

Perhaps the most persuasive argument for allowing States a few more years to put their own property tax relief houses in order arises from the fact that State fiscal policies are largely responsible for the weight of the local property tax. These jurisdictions, therefore—not the National government—should finance circuit-breaker programs designed to shield low-income homeowners from property tax overload situations.

Unless constructed carefully, a Federal incentive grant for property tax relief could create an inequitable intergovernmental situation. Specifically, it would reward those States that force their local governments to make heavy use of the property tax and shortchange those States that make above-average use of nonproperty tax revenue.

In all of its recent reports, this Commission's recommendations have underscored the need to build greater flexibility into our Federal aid system. A Federal incentive grant with its own set of guidelines and controls would add to an already overburdened Federal aid structure. For these reasons, such a grant proposal should be opposed.*

The Property Tax Assessment Reform Issue

Those who are most familiar with the operations of the property tax suggest that one reason for its unpopularity with the public is the widespread feeling that the tax is not administered fairly. Put an-

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* The following statement of dissent was submitted by Senator Muskie and concurred in by Governor Kneip:

The recommendations adopted by the Advisory Commission on Intergovernmental Relations on the subject of property taxation place an unfairly heavy burden of relief and reform on State and local governments and dismiss the proper, limited contribution the Federal Government can make in this area.

Where excessive property taxes undermine the Federal goal of providing security to the poor and the elderly, even diverting Federal help from needy recipients into local tax collections, there is a clear Federal interest in relieving the special burden. Where States are working to strengthen their own revenue systems through reforming inequitable and arbitrary assessment practices, there is a clear Federal interest in assisting such progress.

The excellent staff work that went into the thorough ACIR study of school financing and property taxation clearly demonstrates the national scope of the problem. Of 14 million Americans with incomes under $5,000 a year, 10.4 million people (4.5 million of whom are 65 or over) face property tax payments in excess of 6 percent of their total income. Nearly 1.3 million elderly homeowners with incomes under $2,000 pay an average of 15.8 percent of their income in property taxes. Additionally, ACIR staff research has shown that State governments have made "spotty" progress at best in implementing the ACIR's 1963 recommendations for upgrading their systems of property tax administration.

In my view, a restricted national program that encourages the States to improve property tax administration while helping lighten excessive taxes on qualified low-income renters and homeowners is necessary. To the extent

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other way, inequitable assessments tend to increase public disenchantment with the property tax because they result in random and unwarranted tax burden differentials. Moreover, poor assessment practices lead to taxpayer confusion about, and distrust of, the property tax system.

Means for improving property tax administration are available. A decade ago this Commission, building on the work that had been done by professionals in the property tax field, submitted a comprehensive list of prescriptions for strengthening the property tax.[2] Underpinning the 29 policy recommendations are the following basic principles:

1. The prevailing joint State-local system for administering the property tax can work with a reasonable degree of effectiveness only if the State tax department is given sufficient executive support, legal authority, and professional stature to insure local compliance with State law calling for uniformity of tax treatment.

2. Professionalization of the assessment function can be achieved only if the assessor is selected on the basis of demonstrated ability to appraise property.

3. The perennial conflict between State law calling for full value assessment and the local practice of fractional assessment can be resolved most expeditiously by permitting local assessment officials to assess at any uniform percentage of current market value above a specified minimum level provided this policy is reinforced with two important safeguards:

a. A full disclosure policy, requiring the State tax department to make annual assessment ratio studies and to give property owners a full report on the fractional valuation policy adopted by county assessors, and

b. An appeal provision specifically to authorize the introduction of State assessment ratio data by the taxpayer as evidence in appeals to review agencies on the issues of whether his assessment is inequitable.

Significantly, the Commission directed its recommendations to the *States* on the ground that they are unquestionably responsible for effective and equitable administration of the property tax. The question of whether the Federal Government should become involved in a matter of such clear-cut State-local concern was not even raised a decade ago and not one of the Commission's 29 policy recommendations called on the National government to take remedial action.

The Commission reaffirms its recommendations of 1962 that call on the States to strengthen assessment administration and thereby make the property tax a more effective and equitable revenue instrument for local government.

Our current research reveals that many States have taken steps to improve assessment administration and, in particular, to broaden their own activities in this area. Still, progress is slow. Tax administration is an ancillary and unglamorous aspect of government activity and initiatives for spending additional funds to improve it are usually given the lowest priorities. Indeed, the amounts that are now being spent by the State governments in supervising property tax administration are generally meager.

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that the final recommendations foreclose the search for an appropriate Federal remedy, they compel my strong dissent.

* Senator Percy submitted the following statement:

I regret very much not being able to participate in the deliberations of the Commission at its meetings on December 14th and 15th because of my absence from the country.

On reviewing the decisions of the Commission, I wish to express my regret that the Commission did not accept a somewhat more expanded view of the role of the Federal Government in encouraging the States to implement programs of property tax reform and relief.

There is ample evidence that in many States property taxation comprises a very heavy burden on homeowners that sometimes exceeds their ability to pay. It is my view that reform of State property tax systems would lead to substantially more equitable taxes, and that in instances where property taxes exceed the ability of qualified homeowners to pay, State programs of relief should be encouraged. I do not believe that the Federal Government should interpose itself directly in the administration of State property taxation. But I believe there is a need for the Federal Government, in properly limited ways, to encourage the States to undertake such programs of reform and relief.

* Treasury Secretary George P. Shultz submitted the following statement:

I agree that the States have and should retain primary responsibility for shaping property tax relief and intrastate equalization of school finances. Yet I believe the evidence indicates that in some instances low income groups, particularly the elderly, have come to bear in recent years such a heavy burden of property tax that Federal action deserves consideration, pending the time that States are in a position to complete that action themselves.

I would note that the Commission's action on this issue was taken by a closely divided vote.

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Many States spend as little as one-twentieth or one-thirtieth of one percent of local property tax collections for this function.

The Commission considered, but turned down, the possibility of a small Federal categorical grant to encourage States to improve assessment administration.* We could find no major Federal program objective that has been seriously undercut because of poor property tax assessment administration on the part of State and local governments. Moreover, both States and localities can use any portion of their Federal revenue sharing funds for financial administration—including property tax assessment administration.

As in the case of a proposed Federal incentive grant for property tax relief, this proposal would add still another narrow purpose categorical aid program with its own set of Federal guidelines and controls. Enactment of this proposal would represent still another Federal attempt to dictate State and local spending priorities and would, therefore, also work against the objective of building greater flexibility into our Federal aid system.

Furthermore, before launching a new Federal initiative for property tax assessment reform the Commission urges the President and the Congress to take steps to coordinate and strengthen existing Federal programs that have clear potential for stimulating improvement of State and local assessment practices. Examples of such activities are:

- The Department of Housing and Urban Development, under its research and demonstration program, can make grants to, or enter into contracts with, States and localities for innovation projects aimed at improving assessment administration.
- The FHA appraisal activities of the Department of Housing and Urban Development might be extended and coordinated with those of the local assessors.
- Other Federal agencies—such as the Department of Transportation, the General Services Administration and the Department of Defense—are continuously involved in land acquisition and undoubtedly conduct appraisals in connection with these activities. Such appraisals should also be coordinated with local assessment work.
- The various mapping operations of the Department of Commerce and the Department of the Interior might be available to the State property tax agencies as they develop land use maps in connection with property tax assessment.
- Treasury regulations and practices regarding depreciation of buildings for income tax purposes should be examined to determine whether such practices do indeed—as has been alleged—encourage over-assessment of improvements vis-a-vis the land on which the improvements stand.
- The activities of the Civil Service Commission under the Intergovernmental Personnel Act might be expanded in the areas of assessor training and interchange of State and Federal personnel concerned with property appraisal.
- The experience that has been gained by the Bureau of the Census in conducting sales-assessment ratio studies might be built upon to help States strengthen and standardize their own studies.

Intrastate School Finance Equalization

The Commission also examined the issue of whether and to what extent Federal financial aid was necessary to help States meet the problems of school finance that may stem from recent court decisions. Evidence provided in this report indicates that, with few exceptions, States have ample untapped tax potential for this purpose. Obviously, action on school finance that requires States to alter substantially the degree of reliance on the local property tax for school support takes time and would require public acceptance.

In order to minimize the time period for accomplishing school finance equalization and help the States surmount the obvious political obstacles, the Commission considered a proposal for limited and temporary Federal assistance. The assistance might take the form of a general purpose grant in the range of $20 to $40 per school age child that could be used for any purpose so long as a State met equalization objectives specified by the Federal aid legislation. These features assure that a State like Hawaii, which has eliminated inter-local fiscal disparities by opting for a statewide school system, would not be deprived of the benefit of the aid program.

The assistance would be equipped with a self-destruct mechanism. For example, the aid legislation could be drawn so as to insure that it phased out automatically as the National government relieved States of financial responsibility in, say, the public welfare field.

The Commission rejected the idea of limited and temporary Federal assistance designed to encourage each State to improve the ability of its school finance system to equalize the fiscal capacity of its local school districts. No vital National program objectives are currently being subverted by existing intrastate school finance disparities. Moreover, Federal aid for this purpose would represent a return to the pre-revenue sharing philosophy that the National government is in a better position than the States to determine State-local budgetary priorities.

* See statements by Senators Muskie and Percy and Governor Kneip in footnote on page 6.

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The States have plenary powers in the education field and they also have an overriding self-interest in adequate provision of this single most costly State-local function. States have at least four options in responding to any court decision invalidating a school finance system that relies too heavily on the local school property tax. They can reorganize their school districts to make each local district more in the image of the State as a whole. They can mandate a uniform school property tax rate the proceeds of which could be used to equalize financial capacity among districts. They could enact State property or non-property taxes the proceeds of which could be used to equalize local fiscal capacity. They could finance schools from non-property tax sources as does Hawaii. The States alone have the capacity to take any or all of these options should the need arise as a result of court action. Thus, Federal intervention is not a prerequisite to State solution of the intrastate school finance disparities issue.

The Commission concludes that the reduction of fiscal disparities among school districts within a State is a State responsibility.

Yet, in concluding that the reduction of fiscal disparities among school districts within a State is a State responsibility, the Commission hastens to emphasize four points:

- The Commission is not addressing itself to the role the Federal government should play in supporting public elementary and secondary education but to the narrower question of whether and to what extent Federal aid is necessary to encourage States to reduce fiscal disparities among school districts within each State.
- The Commission believes time is needed to assess the impact of revenue sharing, particularly the extent to which it will enable the States to come to grips with the intrastate school finance question. California, for example, has already earmarked its State allocation of revenue sharing to finance part of its $1 billion school finance reform-property tax relief program.
- The lower courts have lit warning signals on the intrastate school finance problem but the appropriate future path for State action will not become clear until the Supreme Court renders a decision on a case now pending before it.
- The uncertainty surrounding the effectiveness of dollars earmarked for education, as it is presently delivered, illustrates the need for State systems to measure the effectiveness of school spending and to rebuild citizen confidence in public education.

Summing Up

The most significant and positive inference that can be drawn from the Commission's policy recommendations is this—it is not necessary to buck every problem up to Washington for resolution. Strengthened by revenue sharing and with the strong prospect for shifting an increasing share of the welfare expenditure burden to the National government, the States can and should be held accountable for their traditional property tax and school finance responsibilities.

But revenue sharing and Federal takeover of welfare are not enough. If States are to play a strong role in our Federal system, Congress must resist the constant temptation to solve problems that should be handled at the State level. Congress would be in a far better position to resist this pressure if it subjected to a rigorous National interest test all proposals calling for new National government initiatives in areas of traditional State-local concern. Only by applying a "tough" test can we strike a reasonable balance between National and State interests.

The Commission concludes that there is no need to enact a Federal value-added tax to provide revenue for property tax relief and to ameliorate fiscal disparities among school districts within each State, and therefore recommends that such a tax not be adopted for this purpose.

In view of our conclusion that no Federal aid should be extended for general property tax relief or intrastate school finance equalization, it follows that the introduction of a major new source of taxation for these purposes is not warranted.

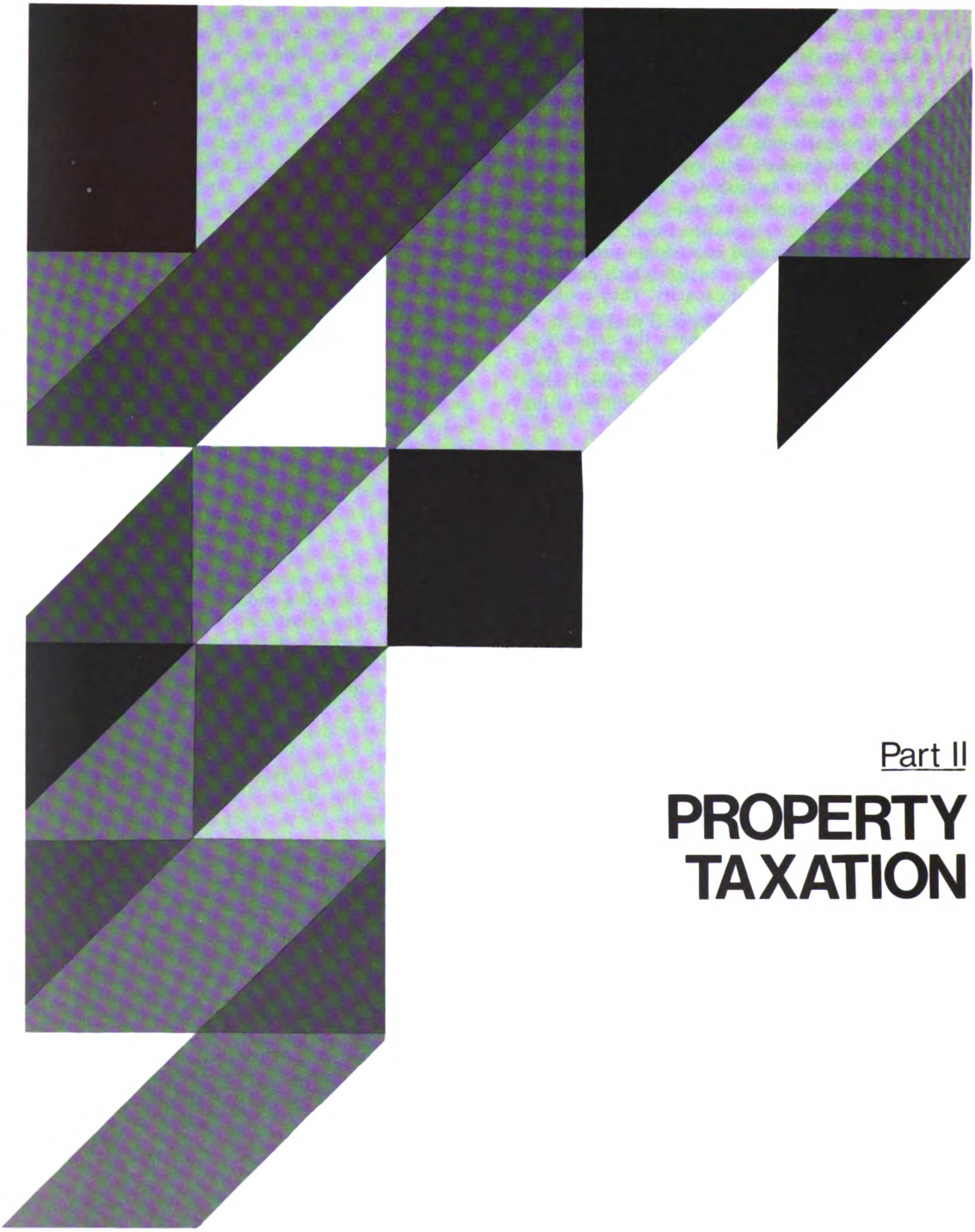
This Commission, however, has conducted a thorough study of the value-added tax and has also examined certain other means for strengthening the National government revenue system and will release an information report on this subject.

FOOTNOTES

[1]ACIR, *Revenue Sharing—An Idea Whose Time Has Come*, December 1970, pp. 7-9.

[2]ACIR, *The Role of the States in Strengthening the Property Tax*, A-17, June 1963, Vol. I, Chapter 2.

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Part II

PROPERTY TAXATION

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chapter II

scope and summary of findings

Public dissatisfaction with rising property tax burdens is now felt throughout our intergovernmental system. At the local level, voter resistance to higher property tax rates now confronts many major school districts with a severe fiscal crisis. At the State level, property tax relief proposals increasingly occupy a high place on the legislative agenda. Even at the National level, interest in the local property tax has increased sharply. In his 1972 State of the Union Message, President Nixon highlighted his concern about property tax burdens and school finance reform. The Senate Subcommittee on Intergovernmental Relations is now examining the weaknesses of the property tax and evaluating various prescriptions for strengthening this levy, and the Democratic Party has also stressed the need for property tax relief and reform in its 1972 platform.

Three Beneficial Effects

Three salutary effects should flow from the growing interest of national policymakers in the property tax in general and in residential property tax relief in particular. First, it will force the critics of the property tax and its friends (there are some) to put their conflicting claims to the acid test of policy analysis. With the possibility of great changes in fiscal federalism hanging in the balance, it is not likely that extreme claims in behalf of or against property tax relief will go unchallenged. Second, any national debate about the causes and the cures for local property tax overburden will inevitably force national policymakers to look more closely at the entire intergovernmental tax system. We have too many cases of taxpayers being disproportionately burdened simply because one unit or level of government paid little attention to what other units were doing to the same taxpayers. Third, and most important, the possibility of a massive federally financed property tax relief program will require a rethinking of the traditional view that property tax issues should be the exclusive concern of State and local officials.

Scope Of Analysis

The purpose of this part is to answer the question, "Should the Federal government play a role in property tax *relief* and, if so, what should that role be?" Those interested in other property tax questions will not find their concerns directly addressed in this report. Nonetheless, such issues as assessment reform, site value taxation, and property tax classification are examined, but only in the context of their potential for providing property tax *relief*. Three considerations are responsible for the approach taken here.

1. On January 20, 1972, the President asked the Advisory Commission on Intergovernmental Rela-

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tions to undertake a study of a proposal that would use new Federal revenue to replace a substantial portion of the present residential property tax and thus provide property tax relief.

2. On February 10, 1972, the Advisory Commission on Intergovernmental Relations voted to consider "whether, and to what extent, . . . Federal assistance is needed . . . in order to reduce residential property taxes. . . ."

3. The Advisory Commission on Intergovernmental Relations has been engaged for many years in the study of various aspects of the property tax and has made numerous recommendations concerning this tax. The Commission began its study of the property tax in a small way with its report *State and Local Taxation of Privately Owned Property Located on Federal Areas* issued in June 1961. The Commission expanded its interest in the property tax with its monumental two-volume report, *The Role of the States in Strengthening the Property Tax* issued in June 1963. The report includes twenty-nine major recommendations with respect to State responsibility for property tax administration. The recommendations rest on four premises—that there should be: (1) State supervision of the assessment process and continuing study of the property law to make it enforceable; (2) professionalization of the assessment function; (3) disclosure of full information to property owners of the relationship between market and assessed value; and (4) provision of a quick and economical appeal procedure to property owners who feel aggrieved by their assessments. In a subsequent major study, *Fiscal Balance in the American Federal System* (October 1967), the Commission recognized the problem of property tax overburden and recommended that the States help relieve the local property tax burden on low income families. In *State Aid to Local Government* (April 1969), the Commission recommended that "in order to relieve the massive and growing pressure of the school tax on owners of local property" each State assume substantially all fiscal responsibility for financing local schools.

Summary Of Major Findings

In light of these considerations the study concentrates primarily on the question: What role, if any, should the National government play in relieving property tax burdens and in strengthening the administration of this tax?

What Do the Findings Indicate Regarding the Extent of the Problem?

1. The property tax is by far the most unpopular of all major revenue producers. In a poll conducted for the Advisory Commission on Intergovernmental Relations, respondents chose the property tax less often than any other tax as the fairest tax, and respondents picked the property tax more often than any other tax as the worst (least fair) tax. The opposition to the property tax was uniform among respondents of all backgrounds. When asked what would be the best way to raise additional State revenue, respondents chose the sales tax most frequently and the property tax least frequently. *(See Chapter III.)*

2. The clear public preference for State sales or income taxes over the property tax is further manifested in the fact that the combined State-local income and sales tax burden borne by the average family has grown during the past twenty years at a decidedly faster rate than the residential property tax burden. State and local general sales and personal income taxes, combined, more than tripled as a percent of the average family's income between 1953 and 1972, while the property tax burden only rose a little over 50 percent. While, admittedly, State sales and income taxes were a minor element in the State-local tax structure 20 years ago (taking slightly less than one percent of the average family's income) they now almost equal residential property taxes in their impact on the average family. *(See Chapter III.)*

3. Despite its obvious defects, the property tax has significant political and fiscal virtues. First, it is the major revenue source directly available to local government and therefore serves as the traditional defense against centralization. Second, it is the one tax in general use that can recapture for the community the property values that the community has created. Finally, its high visibility makes it a force that works in favor of greater public accountability. *(See Chapter III.)*

4. In spite of growing more slowly than State sales and income taxes, the residential property tax has grown faster than the value of the average residence or the income of the average household. In short, there has been a steady increase in residential property tax burdens, whether measured by value or by household income. Between 1958 and 1971 the effective property tax rate in relation to the average value of a home rose from 1.3 percent to 2.0 percent. In other words, when the average family in 1958 owned a house valued at $13,000, it was paying about $175 in property taxes; the same family in 1971, owning a house worth $19,500, paid about $385 to the property tax collector. The average family with a $5,000 income in 1953 paid about $110 (2.2 percent of income) in property taxes, while the average family, which now earns about $12,000, pays a little over $400 (3.4 percent of income) in residential real es-

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tate taxes. *(See Chapter IV and Appendix A, Table A-18.)*

5. When compared to the property tax burden borne by the average family, the property tax load carried by poor householders must be characterized as excessive. In 1970, the average homeowner with an income of approximately $10,000 turned over about $340 (3.4 percent) of his total money income to the residential property tax collector. In striking contrast, over 6 million elderly homeowners paid an average of 5.2 percent of their income in property taxes. The property tax collector took an average 16.6 percent of household income from all 1.7 million homeowners with incomes of less than $2,000. It was much worse in the high-tax Northeast region, where these low income homeowners paid more than 30 percent of their meager income in property taxes. *(See Chapter IV.)*

What Do the Findings Indicate Regarding the Feasibility and Desirability of Various Solutions?

6. The States are beginning to take action to relieve extreme property tax burdens, especially the overburdens of the elderly. Fourteen States have already enacted circuit breaker property tax relief programs for low-income homeowners and some of these programs provide relief for renters. Significantly, half of these States are among those with the heaviest residential property tax burden. Twenty-six States (including the 14 with circuit-breakers) now finance some form of property tax relief and most of these programs have been enacted since 1970. *(See Chapter V.)*

7. Property taxation is used unevenly by the various States. The great variations in the use of the property tax would greatly complicate any National government effort to design an equitable property tax relief program for the nation. There is a range of seven to one in per capita property tax collections as between the State with the lowest per capita yield (Alabama) and that with the highest (California). As a percent of personal income, residential property taxes vary from 0.3 percent in Louisiana to 3.7 percent in New Hampshire. In terms of the market value of a home, the effective rate ranges from about half of one percent in Louisiana to over 3 percent in five States. In general, the Southern States bear lightly on the property tax while those in the Northeast and Midwest exert heavy pressure on it.

The property tax is particularly burdensome in large urban centers. In 28 SMSA's containing almost three-fourths of the population in the 50 largest SMSA's, residential property tax loads exceed 2 percent of market value and in 10 of these metropolitan areas they have risen above the 2.5 percent level. *(See Chapters III & IV.)*

8. Any property tax reduction achieved through the reduction or elimination of the school property tax threatens to be offset by increases in the expenditures of other units of government. Only specific action to avoid the propensity of non-school governments to tap the relinquished property tax base—e.g. stringent tax limits or strict expenditure controls—will guarantee actual property tax relief to individuals. *(See Chapter VII.)*

9. Substantial reduction in property taxes, if achieved, will result in windfall gains to owners of land and buildings. A sharp reduction in a tax on commercial (including residential rental) property or industrial property generates an immediate, one-time capital gain to the owner because the property will then bring a higher annual net income. This results in a larger stream of income from the property, thus enabling the owner to command a higher price for the property in the market place. The so-called land speculator is twice blessed by property tax reduction. First, his vacant land, like all taxable realty, has more value in the market, and second, his cash costs of holding land off the market are sharply reduced. *(See Chapter VII.)*

10. Any nationwide plan to exempt residential property from school property taxes would encounter obstacles from the various State constitutions. At least 16 States would have to amend their constitutions in order to exempt residential property from the school tax. In five other States, a constitutional amendment would *probably* be required. *(See Chapter VII.)*

What Do the Findings Indicate About Other Property Tax Related Matters?

11. The Federal government, through its income tax code, is already providing partial property tax relief for homeowners, but the relief helps the high-income homeowner far more than the middle- and low-income person. By deducting the property tax payments in the calculation of taxable income, a taxpayer can reduce his income tax by a percentage of his property tax. Since lower-income persons have lower tax rates, their tax reduction is smaller, even for the same amount of property tax. Furthermore, since low-income persons generally rent and high-income persons generally own their homes, the benefits of deductibility are received primarily by the higher-income persons (because property taxes on rental dwellings are not deductible by tenants). Finally, due to the existence of the high standard deduction, most lower-income persons do not itemize any deductions and thus receive no benefit from the property tax deduction. The standard deduction

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does not compensate for the property tax the way the itemized property tax deduction does because it does not depend upon or vary with the property tax burden. *(See Chapter V.)*

12. There is a growing difference of opinion among the specialists in the field of taxation as to whether the property tax is paid primarily by renters and other users of housing through higher rents or by investors through lower interest and profits. Under either set of assumptions, however, the burden seems to fall disproportionately upon lower-income persons. *(See Chapter IV.)*

13. In spite of the widespread feeling that the property tax is detrimental to urban development, there is no strong indication that the property tax is a primary factor retarding urban economic and industrial development. The observed exodus of factories and industry from central cities seems mainly to result from a change in the physical requirements and opportunities of manufacturing enterprises. While the property tax usually reinforces all the other social and economic factors pushing high-income families and business firms out of the central city and into suburbia, it is more a symptom than a cause of central city fiscal distress. It is this progressive political and social fragmentation of the metropolitan economy—the division of the old unitary community into fragmentary have and have-not jurisdictions—that stands out as the prime mover of central city fiscal distress. *(See Appendix I.)*

14. Reform proposals such as more uniform assessment, statewide property taxation, and site-value taxation do not hold forth much promise of property tax relief. While each of these proposals deserves consideration as a means for strengthening the property tax and making it more equitable, their main effect, if adopted, would be to shift property tax burdens rather than to provide general property tax relief. Tax classification also does not hold forth much promise of general property tax relief although it must be admitted that a classified property tax can be designed to "hit business' harder than residential or farm property. *(See Chapter VI.)*

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chapter III

fiscal trends and public attitudes

In this chapter we seek to answer three questions: How does the property tax fit into our total Federal-State-local tax system? Just how unpopular is the property tax? Why is the property tax the most unpopular of all major taxes?

Fiscal Trends

Concern with the growing property tax burden is understandable. Next to the personal income tax, the current (fiscal 1973) $45 billion annual property tax yield makes it the largest single source of public revenue in the Nation. And, by virtue of steadily rising rates and growing property values, collections have been growing at a record pace in recent years.

Until enactment of the Federal income tax in 1913, property taxation provided the largest share of Federal, State and local tax financing. In 1902 it accounted for 51 percent of all tax revenue and by 1913 its share had risen to almost 60 percent. Federal use of the income tax increased to finance World War I, and the property tax portion fell considerably. It was still below 50 percent by 1922, but rose steadily until 1932 when it reached a new peak of 56 percent.

Proliferation of State income and sales taxes during the 1930s and intensive use of the Federal income tax to finance World War II and the Korea conflict caused a second downward trend. The property tax share of Federal-State-local tax financing slid to between 35 and 40 percent in the late 1930s, then down to 9 percent at the height of World War II in 1944, after which it crept up slowly to about the 12 percent level between 1946 and 1956. It has since continued to creep up gradually so that it is now at about 16 percent. *(See Table 1.)* However, if the $46.3 billion of Federal social security (payroll) taxes is included among the tax sources, the property tax accounts for only 13.6 percent of the total.

Table 1
The Federal-State-Local Tax Structure, 1972

Tax Source	Amount (billions)	Percentage Distribution
Property Taxes	$ 41.5	15.8
Consumption Taxes (including customs)	56.8	21.6
Income Taxes	146.7	55.9
Other	17.4	6.6
Total	$262.4	100.0

Source: Estimated by ACIR staff.

Relative to the gross national product, the property tax reached a peak in 1932 (at 7.7 percent of GNP), having risen from 2.9 percent in 1902 to about

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Table 2

Federal, State and Local Taxes in Relation to Gross National Product, Selected Years, 1902-1972

Year	Tax Collections (in millions)			As Percent of GNP		
	Federal Taxes	State and Local Taxes		Federal Taxes	State and Local Taxes	
		Total	Property Taxes Only		Total	Property Taxes Only
1971-72*	$156,400	$106,000	$41,500	14.9%	10.1%	4.0%
1969-70	146,082	86,824	34,083	15.7	9.3	3.7
1964-65	93,710	51,243	22,583	14.8	8.1	3.6
1962	82,262	41,554	19,054	14.7	7.4	3.4
1960	77,003	36,117	16,405	15.3	7.2	3.3
1954	62,409	22,067	9,967	17.1	6.0	2.7
1950	35,186	15,914	7,349	12.4	5.6	2.6
1946	36,286	10,094	4,986	17.4	4.8	2.4
1944	40,321	8,774	4,604	19.2	4.2	2.2
1942	12,265	8,528	4,537	7.8	5.4	2.9
1940	4,878	7,810	4,430	4.9	7.8	4.4
1936	3,882	6,701	4,093	4.7	8.1	5.0
1932	1,813	6,164	4,487	3.1	10.6	7.7
1927	3,364	6,087	4,730	3.5	6.3	4.9
1922	3,371	4,016	3,321	4.6	5.4	4.5
1913	662	1,609	1,332	1.6	4.0	3.3
1902	513	860	706	2.1	3.6	2.9

Source: U.S. Bureau of the Census, *Census of Governments 1967*, Vol. 6, No. 5: "Historical Statistics on Governmental Finances and Employment; and *Governmental Finances in 1969-70*. Tax Collections for 1971-72 estimated by ACIR staff. Gross National Product figures for 1964, 1969 and 1971 from Council of Economic Advisors, *Economic Indicators*, April 1972.
*1971-72 figures are estimated.

Table 3

The Property Tax in the State-Local Revenue Structure 1970-71

Level of Government	Property Tax Revenue		As a Percentage of—		
	Amount (millions)	Percentage Distribution	Total Tax Revenue	General Revenue From Own Sources[1]	Total General Revenue
All State and Local Governments	$37,852	100.0	39.9	31.9	26.1
State Governments	1,126	3.0	2.2	1.8	1.3
Local Governments	36,726	97.0	84.6	63.9	39.9
Counties	7,592	20.1	87.2	64.4	37.4
Municipalities	10,041	26.5	66.5	48.1	32.8
Townships	2,096	5.5	91.6	80.8	62.8
School Districts	16,141	42.6	98.0	84.8	45.7
Special districts	855	2.3	96.3	26.8	19.7

[1]Includes taxes and service charges but not Federal aid.
Source: ACIR staff computations based on U.S. Bureau of the Census, *Governmental Finances in 1970-71*.

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TABLE 4 – PROPERTY TAX AS A PERCENTAGE OF TOTAL STATE-LOCAL TAXES, BY STATE, AND REGION, SELECTED YEARS, 1942-1971

State and Region	1971	1970	1967	1962	1957	1942
United States	39.9	39.2	42.7	45.9	44.6[1]	53.2[1]
New England	(47.3)	(47.2)	(50.2)	(53.9)	(52.7)	(60.2)
Maine	45.2	45.7	48.5	52.8	50.0	62.7
New Hampshire	59.1	62.3	63.4	63.6	62.8	60.5
Vermont	37.3	34.9	40.1	45.2	45.0	50.4
Massachusetts	52.2	50.3	51.8	60.6	58.0	67.2
Rhode Island	38.7	40.5	45.6	47.8	50.4	62.6
Connecticut	51.2	49.2	52.0	53.6	50.0	57.5
Mideast	(33.9)	(34.0)	(37.5)	(40.5)	(41.4)	(54.6)
New York	37.6	36.4	39.4	44.4	47.7	58.4
New Jersey	54.7	54.1	56.9	64.7	64.0	75.3
Pennsylvania	29.5	29.5	33.6	34.7	33.4	51.1
Delaware	17.6	18.6	19.9	20.5	23.9	28.6
Maryland	32.8	32.4	41.2	41.7	42.5	57.7
District of Columbia	31.0	32.7	33.8	37.0	36.8	56.2
Great Lakes	(44.3)	(43.8)	(46.9)	(53.2)	(50.5)	(53.4)
Michigan	41.2	40.3	43.8	49.3	46.1	52.8
Ohio	47.2	47.2	51.7	51.7	48.0	47.8
Indiana	50.8	47.0	48.4	56.2	54.9	55.1
Illinois	38.9	41.2	48.9	53.4	51.7	56.5
Wisconsin	43.3	43.4	41.7	55.6	51.8	55.9
Plains	(47.8)	(47.6)	(52.9)	(56.0)	(54.8)	(60.0)
Minnesota	42.3	38.7	49.6	54.9	51.8	56.4
Iowa	49.8	48.9	50.4	56.5	48.8	55.3
Missouri	40.7	40.1	40.9	42.6	44.4	49.7
North Dakota	44.9	46.6	51.0	52.8	52.8	67.0
South Dakota	56.2	55.0	56.1	58.4	58.2	61.5
Nebraska	51.2	52.6	72.3	70.5	69.9	69.1
Kansas	50.4	51.2	50.3	56.1	58.0	60.9
Southeast	(24.9)	(24.9)	(27.0)	(29.4)	(27.7)	(38.0)
Virginia	29.4	28.3	30.0	35.9	31.1	39.6
West Virginia	22.2	23.3	26.7	27.2	25.4	32.7
Kentucky	22.2	22.9	27.0	30.3	36.3	47.0
Tennessee	28.2	27.5	29.3	33.3	28.9	44.1
North Carolina	26.2	25.3	26.4	27.9	26.8	31.3
South Carolina	22.2	22.4	21.2	24.3	23.0	37.0
Georgia	32.2	30.5	31.4	31.8	29.0	41.2
Florida	33.9	34.0	40.3	41.2	35.4	44.7
Alabama	14.8	15.2	17.7	20.3	20.2	32.5
Mississippi	24.3	24.1	27.7	29.9	27.5	41.0
Louisiana	19.0	19.8	20.5	22.6	21.8	33.7
Arkansas	25.6	25.8	26.1	28.3	26.5	30.7
Southwest	(32.8)	(33.1)	(36.6)	(37.4)	(36.6)	(43.4)
Oklahoma	30.2	30.5	32.9	31.2	30.4	35.7
Texas	40.0	40.5	45.4	45.3	46.2	55.5
New Mexico	22.4	22.6	22.5	25.2	23.4	34.2
Arizona	38.6	38.9	45.5	47.7	46.4	48.3
Rocky Mountain	(43.2)	(43.4)	(46.9)	(50.1)	(50.9)	(73.7)
Montana	56.6	54.3	56.0	56.8	58.3	68.4
Idaho	35.2	36.4	36.8	48.6	50.2	62.0
Wyoming	47.3	47.5	54.7	53.4	51.4	54.6
Colorado	41.9	42.7	45.8	47.7	50.8	56.6
Utah	36.1	36.0	41.4	44.1	43.8	53.3
Far West	(41.4)	(40.9)	(42.4)	(40.3)	(38.8)	(49.2)
Washington	34.7	35.1	30.8	30.9	29.6	33.7
Oregon	48.9	47.2	47.5	47.4	42.4	51.7
Nevada	32.8	34.4	40.0	32.7	36.1	61.4
California	49.1	46.9	51.4	50.2	47.2	49.9
Alaska	22.7	24.4	24.6	22.9	(22.0)	n.a.
Hawaii	18.2	17.2	20.3	16.0	(15.8)	n.a.

Note: Regional amounts are unweighted averages.
n.a. – Not available.

[1] Excluding Alaska and Hawaii.

Source: ACIR staff computations based on various reports of U.S. Bureau of the Census, Governments Division.

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5 percent just prior to the Great Depression. Displaying insensitivity to economic change, property tax collections dropped little between 1927 and 1932, while the GNP was cut almost in half. *(See Table 2.)* By the same token, property tax collections grew much more slowly than the economy during the recovery period and reached an all-time low of 2.2 percent of GNP in 1944. Since the end of World War II, demands on local government treasuries were intensified. The property tax share of the economy grew slowly but steadily, to 4 percent of GNP by fiscal 1972.

Although property taxes are lower now in relation to GNP than in the period from 1922 to 1940, the property tax must be considered in the light of the steadily expanding *total* Federal-State-local burden. In 1922, total Federal-State-local taxes were 10 percent of GNP; by 1972 Federal, State and local taxes amounted to 25 percent of GNP—over 30 percent of GNP if social insurance collections are included.

The Property Tax in the State-Local Revenue Structure

Although property taxation seems of average size in the national tax picture, it stands out as a giant in State and local taxes. In 1970-71, it accounted for two-fifths of all State and local tax collections and almost 7 out of every 8 local tax dollars. *(See Table 3.)* The situation was about the same in 1971-72.

Municipalities have been better able to tap non-property taxes than have other types of local government. However, even they derive two-thirds of their tax revenue from the property tax. The rest rely almost entirely on property taxation—counties for 87 percent of their tax collections; townships, 92 percent; school districts, 98 percent; and special districts, 96 percent.

Even taking into account non-tax revenue, property taxation supplies almost one-third of State and local general revenue excluding Federal aid and about one-fourth if Federal aid is included.

But there is considerable interstate variation in the extent to which the property tax dominates State-local financing. *(See Table 4.)* The position of the property tax in the overall tax structure of a State depends on how responsibility for financing and administering public functions is divided between the State and its localities.

As a general rule, the more responsibility a State takes on—especially for financing elementary and secondary education—the less reliance is placed on property taxation.

The following distribution shows the position of the property tax in the State-local tax structure of the 50 States and the District of Columbia in 1970-71:

Table 5

Local School Property Taxes in Relation to Total Property Taxes, by State and Region, 1969-70

State and Region	State-Local Property Tax Collections ($000's)	Local Property Tax Collections		Local School Property Taxes as Percent of—	
		For All Purposes ($000's)	For Schools ($000's)	State-Local Property Taxes	Local Property Taxes
United States	$ 34,082,887	$ 32,991,142	$ 18,942,549	55.6%	57.4%
New England	2,701,320	2,693,494	1,389,616	51.4	52.7
Maine	172,618	168,851	90,378	52.4	53.5
New Hampshire	152,941	149,456	90,961	59.5	60.9
Vermont	72,982	72,757	56,219	77.0	77.3
Massachusetts	1,422,737	1,422,388	725,403	51.0	51.0
Rhode Island	156,965	156,965	75,779	48.3	48.3
Connecticut	723,077	723,077	350,876	48.5	48.5
Mideast	8,247,750	8,119,184	4,129,746	50.7	51.1
New York	4,327,952	4,315,572	1,988,697	46.0	46.1
New Jersey	1,733,978	1,684,223	950,620	54.8	56.5
Pennsylvania	1,398,942	1,366,933	842,121	60.2	61.6
Delaware	45,811	45,508	25,775	56.2	56.6
Maryland	613,255	579,136	346,575	56.5	59.8
Dist. of Columbia	127,812	127,812	25,958	34.3	34.3

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State and Region	State-Local Property Tax Collections ($000's)	Local Property Tax Collections		Local School Property Taxes as Percent of—	
		For All Purposes ($000's)	For Schools ($000's)	State-Local Property Taxes	Local Property Taxes
Great Lakes	7,431,675	7,192,481	4,760,345	64.1	66.2
Michigan	1,630,267	1,547,235	1,172,501	71.9	75.8
Ohio	1,726,721	1,668,158	1,173,483	68.0	70.4
Indiana	871,218	848,438	492,779	56.6	58.1
Illinois	2,229,252	2,226,750	1,413,362	63.4	63.5
Wisconsin	974,217	901,900	508,220	52.2	56.4
Plains	2,912,741	2,886,288	1,820,566	62.5	63.1
Minnesota	650,210	644,400	394,156	60.6	61.2
Iowa	602,161	598,098	361,001	60.0	60.4
Missouri	642,778	639,963	455,996	70.9	71.3
North Dakota	108,066	106,660	60,436	55.9	56.7
South Dakota	145,757	145,757	86,083	59.1	59.1
Nebraska	309,621	307,615	199,058	64.3	64.7
Kansas	454,148	443,795	263,836	58.1	59.5
Southeast	3,545,037	3,388,955	1,839,586	51.9	54.3
Virginia	446,756	434,157	306,822	68.7	70.2
West Virginia	122,545	122,295	84,017	68.6	68.7
Kentucky	220,919	194,342	141,443	64.0	72.8
Tennessee	301,746	301,746	116,226	38.5	38.5
North Carolina	399,635	375,955	159,269	39.9	42.4
South Carolina	159,016	157,361	94,058	59.2	59.8
Georgia	436,964	433,841	216,036	49.4	49.8
Florida	801,101	767,478	371,911	46.4	48.5
Alabama	135,526	112,673	59,107	43.6	52.5
Mississippi	157,756	153,839	97,794	62.0	63.6
Louisiana	238,368	211,433	102,918	43.2	48.4
Arkansas	124,705	123,835	89,985	72.2	72.7
Southwest	2,049,463	1,903,109	1,109,622	54.1	58.3
Oklahoma	238,438	238,438	185,182	77.7	77.7
Texas	1,435,110	1,371,047	730,769	50.9	53.3
New Mexico	82,488	68,019	37,661	45.7	55.4
Arizona	293,427	225,605	156,010	53.2	69.2
Rocky Mountain	845,901	812,389	545,964	64.5	67.2
Montana	149,933	141,843	85,999	57.4	60.6
Idaho	90,238	89,488	57,391	63.6	64.1
Wyoming	68,415	57,693	38,832	56.8	67.3
Colorado	394,401	393,286	284,530	72.2	72.4
Utah	142,914	130,079	79,212	55.4	60.9
Far West	6,349,000	5,995,242	3,297,104	51.9	55.0
Washington	529,914	416,853	249,431	47.1	59.8
Oregon	394,888	392,007	291,108	73.7	74.3
Nevada	86,767	82,431	40,504	46.7	49.1
California	5,230,970	4,997,490	2,704,535	51.7	54.3
Alaska	30,719	30,719	11,526	37.5	37.5
Hawaii	75,742	75,742	—	—	—

Source: Compiled by ACIR staff from, U.S. Bureau of the Census, *Governmental Finances in 1969-70*, supplemented by unpublished data supplied by the Governments Division, Bureau of the Census and some State published and unpublished data.

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Property Tax as a Percent of State-Local Tax Collections	Number of States
Less than 20%	4
20-29.9	11
30-39.9	14
40-49.9	13
50-59.9	9

The growth of the property tax by-and-large has followed the growth of public elementary and secondary school financing. As noted, school districts rely much more on property taxes than general purpose governments.

Nationally, 57 percent of all local property taxes collected in 1969-70 went for schools. *(See Table 5.)* This percentage represents a steady climb from 33 percent in 1942.

Only Pennsylvania and Louisiana have authorized widespread use of local nonproperty taxes for school districts. Pennsylvania school districts levy and collect their own income taxes. Louisiana school districts are able to impose a one percent sales tax.

Interstate Variations in Residential Property Tax Burdens

Although the property tax has been growing everywhere, by any measure—per capita, as a percentage of income, or as a percentage of property value—the weight of this levy varies considerably from region to region. In 1971, there was a 7 to 1 range in per capita property tax collections between the highest State (California with $296) and the lowest (Alabama with $41). *(See Table 6.)*

Two Tests of Residential Property Tax Burden

How the impact of the property tax on homeowners and renters varies from State to State can be measured in at least two ways: by an "income test" and a "value test." *(See Table 7.)* The "income test" relates a State's estimated collections from property taxes on owner-occupied homes and multiple-family dwellings to the personal income of its residents. The "value test" uses data developed by the Federal Housing Administration as to the market value and property taxes on FHA insured homes owned and occupied by middle-income families in each State.

The general picture shows a significant spread between the States with the highest burden and those with the lowest—about 8 to 1 in the case of the income test and about 5½ to 1 in the case of the value test. A similar geographic pattern emerges from both tests. The States in New England, the Mideast and the Midwest, as well as California, Oregon and Colorado in the West had the highest property tax burdens. Those with the lowest burdens are mainly in the Southeast, but with the addition of a few States in the West. All but three of the 17 States in the top third on the income test also rank with that group on the value text. (Nebraska, which ranks number one in terms of value, falls just below the top third on the income test.) Six of the 17 States in the lower third on the income test fall in the middle or top of the value measure.

A Closer Look at the Interstate Variations

Table 8 takes a closer look at the States in the top and bottom thirds of the residential property tax burdens, according to the combined index in Table 7. In almost every state in the top group, the property tax load outranks both sales and personal income taxes, individually and combined.* In five of them, however, property taxes are high because the States make little or no use of either the sales tax or the income tax (New Hampshire, New Jersey, Connecticut, South Dakota and Oregon). It can be concluded, then, that these States could fairly readily relieve their heavy property tax burdens by broadening their tax horizons. *(For additional analysis, See Chapter V, p. 62 ff.)* Only States like New York, Wisconsin and Vermont apparently would be hard-pressed to extend substantial property tax relief from their own revenue sources, because they already make fairly extensive use of all three major tax sources.

In all but two of the States in the lowest group, local property tax revenue accounts for a proportion of total State-local taxes that is substantially smaller than average. The two exceptions are Idaho and Wyoming both of which have a property tax base dominated by acreage and mineral-producing realty rather than residential property. Wyoming does not use a personal income tax. Like New Jersey and Connecticut it could readily tap this source to broaden its tax reach and reduce its property tax. Idaho, like New York and Wisconsin, is in a less enviable position.

Most of the States in the low property tax burden group are in the Southeast. States in this region generally had a low-level revenue and expenditure structure or have shifted financing in general—and school financing in particular—up to the State level, away from property taxation. Alabama, Florida, Louisiana, Mississippi and Georgia provide substantial homestead exemptions, thus reducing the relative property tax load in lower-valued homes.

In 14 of the 17 States with a low property tax burden, that levy claims a smaller percentage of State personal income than sales and personal income taxes combined; indeed, in about half of these

*This analysis considers *all* local property taxes—residential and non-residential.

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TABLE 6 – PER CAPITA STATE-LOCAL PROPERTY TAX COLLECTIONS–AMOUNT, AND AVERAGE RATE OF INCREASE, BY STATE, SELECTED YEARS, 1942-1971

State and Region	Per Capita Collections					Average Annual Rate of Increase			
	1971	1967	1962	1957	1942	1967-71	1962-67	1957-62	1942-57
United States Average	$184	$132	$103	$76[1]	$34[1]	8.7%	5.1%	6.3%	5.5%
New England	(222)	(153)	(125)	(91)	(43)	(9.8)	(4.1)	(6.6)	(5.1)
Maine	186	126	107	75	38	10.2	3.3	7.4	4.6
New Hampshire	222	163	128	96	43	8.0	5.0	5.9	5.5
Vermont	185	129	108	78	33	9.4	3.6	6.7	5.9
Massachusetts	286	192	166	120	55	10.4	3.0	6.7	5.3
Rhode Island	180	135	103	77	41	7.5	5.6	6.0	4.3
Connecticut	273	175	140	98	46	11.8	4.6	7.4	5.2
Mideast	(183)	(128)	(98)	(74)	(39)	(9.3)	(5.5)	(5.8)	(4.4)
New York	269	181	138	108	62	9.4	5.6	5.0	3.8
New Jersey	273	182	153	111	61	10.7	3.5	6.6	4.1
Pennsylvania	131	94	71	54	34	8.7	5.8	5.6	3.1
Delaware	88	67	49	33	16	7.1	6.5	8.2	4.9
Maryland	167	131	92	68	31	6.3	7.3	6.2	5.4
District of Columbia	182	115	86	69	30	12.2	6.0	4.5	5.7
Great Lakes	(202)	(141)	(120)	(85)	(36)	(9.4)	(3.3)	(7.1)	(5.9)
Michigan	202	139	116	85	35	9.8	3.7	6.4	6.1
Ohio	172	129	102	72	30	7.5	4.8	7.2	6.0
Indiana	204	142	115	77	32	9.5	4.3	8.4	6.0
Illinois	200	146	130	93	41	8.2	2.3	6.9	5.6
Wisconsin	231	151	135	97	42	11.2	2.3	6.8	5.7
Plains	(206)	(159)	(121)	(91)	(38)	(6.7)	(5.6)	(5.9)	(6.0)
Minnesota	211	174	138	95	41	4.9	4.7	7.8	5.8
Iowa	225	168	130	88	35	7.6	5.3	8.1	6.3
Missouri	147	106	81	59	24	8.5	5.5	6.5	6.2
North Dakota	188	142	113	93	51	7.3	4.7	4.0	4.1
South Dakota	240	170	123	98	42	9.0	6.7	4.6	5.8
Nebraska	221	196	132	101	36	3.0	8.2	5.5	7.1
Kansas	210	158	131	100	37	7.3	3.8	5.5	6.9
Southeast	(82)	(60)	(46)	(34)	(14)	(8.1)	(5.5)	(6.2)	(6.1)
Virginia	109	71	53	40	15	11.3	6.0	5.8	6.8
West Virginia	74	59	46	30	16	5.8	5.1	8.9	4.3
Kentucky	70	57	46	40	16	5.3	4.4	2.8	6.3
Tennessee	85	62	48	34	16	8.2	5.3	7.1	5.2
North Carolina	85	59	44	31	13	9.6	6.0	7.3	6.0
South Carolina	66	42	33	25	13	12.0	4.9	5.7	4.5
Georgia	107	71	49	36	13	10.8	7.7	6.4	7.0
Florida	127	109	80	54	24	3.9	6.4	8.2	5.6
Alabama	41	34	27	21	9	4.8	4.7	5.2	5.8
Mississippi	77	54	42	31	13	9.3	5.2	6.3	6.0
Louisiana	72	54	44	35	16	7.5	4.2	4.7	5.4
Arkansas	69	52	39	27	9	7.3	5.9	7.6	7.6
Southwest	(125)	(98)	(73)	(55)	(22)	(6.3)	(6.1)	(5.8)	(6.3)
Oklahoma	98	83	58	46	19	4.2	7.4	4.7	6.1
Texas	137	108	83	64	22	6.1	4.4	5.3	7.4
New Mexico	88	61	47	35	17	9.6	5.4	6.1	4.9
Arizona	178	146	105	75	32	5.1	6.8	7.0	5.8
Rocky Mountain	(186)	(150)	(115)	(91)	(40)	(5.5)	(5.5)	(4.8)	(5.6)
Montana	235	170	132	110	51	8.4	5.2	3.7	5.3
Idaho	140	108	95	78	38	6.7	2.6	4.0	4.9
Wyoming	228	192	132	99	36	4.4	7.8	5.9	7.0
Colorado	187	157	120	96	42	4.5	5.5	4.6	5.7
Utah	140	121	95	73	35	3.7	5.0	5.4	5.0
Far West[1]	(215)	(155)	(107)	(84)	(38)	(8.5)	(7.7)	(5.0)	(5.4)
Washington	169	111	78	56	24	11.1	7.3	6.9	5.8
Oregon	204	150	110	87	36	8.0	6.4	4.8	6.1
Nevada	190	150	89	84	50	6.1	11.0	1.2	3.5
California	296	209	151	110	43	9.1	6.7	6.5	6.5
Alaska	106	71	50	(28)	N.A.	10.5	7.3	12.3	N.A.
Hawaii	111	82	40	(27)	N.A.	7.9	15.4	8.2	N.A.

Note: Regional collections are unweighted averages.
N.A. – Data not available.

[1]Excluding Alaska and Hawaii.

Source: Compiled by ACIR staff from various reports of the Governments Division, U.S. Bureau of the Census.

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Table 7

Two Tests of Interstate Variations in Residential Property Tax Burdens, 1970-71

States	Income Test[1] Percent	Income Test[1] Rank	Value Test[2] Percent	Value Test[2] Rank	Composite Rank
United States	2.13		1.98		
New Hampshire	3.68	1	3.14	2	1.5
Massachusetts	3.56	2	3.13	3	2.5
New Jersey	3.53	3	3.01	4	3.5
Connecticut	3.23	4	2.38	13	8.5
California	3.03	5	2.48	10	7.5
New York	2.98	6	2.72	6	6.0
Wisconsin	2.80	7	3.01	5	6.0
Maine	2.63	8	2.43	12	10.0
Oregon	2.44	9	2.33	14	11.5
Vermont	2.39	10	2.53	9	9.5
South Dakota	2.37	11	2.71	7	9.0
Rhode Island	2.32	12	2.21	16	14.0
Colorado	2.28	13	2.45	11	12.0
Illinois	2.20	14	2.15	20	17.0
Maryland	2.17	15	2.24	15	15.0
Minnesota	2.17	16	2.05	22	19.0
Pennsylvania	2.15	17	2.16	19	18.0
Michigan	2.11	18	2.02	23	20.5
Nebraska	1.92	19	3.15	1	10.0
Iowa	1.86	20	2.63	8	14.0
Florida	1.72	21	1.41	39	30.0
Missouri	1.71	22	1.79	27	24.5
Arizona	1.71	23	1.65	30	26.5
Ohio	1.69	24	1.47	37	30.5
Indiana	1.65	25	1.96	24	24.5
Kansas	1.55	26	2.17	18	22.0
Tennessee	1.47	27	1.53	34	30.5
District of Columbia	1.44	28	1.80	26	27.0
Nevada	1.41	29	1.48	36	32.5
Delaware	1.38	30	1.26	44	37.0
Utah	1.38	31	1.49	35	33.0
Virginia	1.38	32	1.32	42	37.0
Washington	1.36	33	1.62	31	32.0
Hawaii	1.36	34	0.92	48	41.0
Alaska	1.36	35	1.61	32	33.5
Montana	1.28	36	2.19	17	26.5
Texas	1.28	37	1.91	25	31.0
North Dakota	1.19	38	2.08	21	29.5
Georgia	1.07	39	1.41	38	38.5
Idaho	1.00	40	1.72	28	34.0
North Carolina	0.99	41	1.58	34	37.5
Oklahoma	0.95	42	1.35	41	41.5
Kentucky	0.90	43	1.27	43	43.0
West Virginia	0.84	44	0.69	50	47.0
Wyoming	0.76	45	1.38	40	42.5
Arkansas	0.73	46	1.14	45	45.5
New Mexico	0.63	47	1.70	29	38.0
Alabama	0.50	48	0.85	49	48.5
Mississippi	0.47	49	0.96	46	47.5
South Carolina	0.38	50	0.94	47	48.5
Louisiana	0.27	51	0.56	51	51.0

[1]Residential property tax collections as a precent of State personal income (1970) estimated by ACIR staff.

[2]Average effective rate (percent of the market value of the residence)-Appendix A, table A-1, 1971.

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Table 8

Place of Property Taxation in the State-Local Tax Structure, States with Highest and Lowest Residential Property Tax Burdens,[1] 1970-71

State	State-Local Property Taxes as Percent of Total Taxes 1971	Local Property Taxes, 1971		State General Sales & Personal Income Taxes as Percent of State Personal Income, 1971			Local Property Taxes as a Percent of State—		
		Amount ($ millions)	Percent of State Personal Income	General Sales Tax	Personal Income Tax	Sales & Income Combined	Gen. Sales Tax	Personal Income Tax	Sales & Income Combined
United States Avg.	**39.9**	**36,726**	**4.6**	**1.9**	**1.3**	**3.2**	**237.4**	**361.7**	**143.3**
17 HIGHEST RESIDENTIAL PROPERTY TAX BURDEN STATES									
New Hampshire	59.1	165	6.2	[2]	0.2	0.2	[2]	N.C.	N.C.
Massachusetts	52.2	1,647	6.6	0.8	2.3	3.1	866.8	289.5	217.0
New Jersey	54.7	1,932	5.8	1.6	0.1	1.7	370.1	N.C.	357.1
New York	37.6	4,745	5.4	1.4	2.9	4.3	403.5	187.5	128.0
Wisconsin	43.3	958	5.9	2.1	3.1	5.2	282.6	189.0	113.2
California	49.1	5,748	6.5	2.0	1.4	3.5	319.7	453.7	187.5
Connecticut	51.2	842	5.7	1.8	0.1	1.9	317.7	N.C.	306.2
South Dakota	55.2	161	7.6	2.5	[3]	2.5	303.8	[3]	303.8
Vermont	37.3	84	5.4	1.3	2.8	4.0	442.1	195.3	135.5
Maine	45.2	182	5.6	2.8	0.7	3.6	197.8	758.3	156.9
Nebraska	51.2	334	6.0	1.6	1.0	2.6	375.3	618.5	231.9
Oregon	48.9	439	5.6	[2]	2.9	2.9	[2]	194.2	194.2
Colorado	41.9	426	5.0	1.9	1.7	3.5	271.3	297.9	142.0
Rhode Island	38.7	173	4.7	2.2	1.0	3.3	208.4	455.3	143.0
Iowa	49.8	639	6.1	2.0	1.1	3.1	301.4	555.7	194.8
Maryland	32.8	633	3.8	1.6	2.5	4.0	240.7	152.9	93.5
Illinois	38.9	2,234	4.5	2.0	1.5	3.6	218.2	288.6	124.3
17 LOWEST RESIDENTIAL PROPERTY TAX BURDEN STATES									
Alaska	22.7	33	2.4	[2]	3.0	3.0	[2]	78.6	78.6
Idaho	35.2	102	4.4	2.0	2.4	4.4	226.7	182.1	100.0
Virginia	29.4	501	3.0	1.4	1.9	3.2	218.8	160.1	92.4
Delaware	17.6	49	2.1	[2]	3.3	3.3	[2]	62.0	62.0
North Carolina	25.2	411	2.5	1.8	1.8	3.6	143.7	136.1	69.9
New Mexico	22.4	75	2.4	3.7	1.1	4.9	63.0	208.3	48.4
Georgia	32.2	495	3.2	2.4	1.2	3.6	137.1	270.5	91.0
Hawaii	18.2	88	2.6	5.2	3.4	8.5	49.4	75.9	29.9
Oklahoma	30.2	255	3.0	1.2	0.8	1.9	252.5	398.4	154.5
Wyoming	47.3	69	5.8	2.9	[3]	2.9	202.9	[3]	202.9
Kentucky	22.2	204	2.1	2.9	1.3	4.3	70.3	153.4	48.2
Arkansas	25.6	133	2.5	2.2	0.8	3.1	110.8	302.3	81.1
West Virginia	22.2	130	2.5	3.6	1.1	4.8	67.7	220.3	51.8
Mississippi	24.3	167	2.9	4.3	0.8	5.1	67.9	363.0	57.2
South Carolina	22.2	172	2.3	2.8	1.4	4.2	80.4	159.3	53.4
Alabama	14.8	118	1.2	2.3	0.9	3.3	51.1	128.3	36.5
Louisiana	19.0	237	2.1	2.1	0.7	2.8	101.3	289.0	75.0

N.C.—not computed

[1]Based on composite ranking in table 7.

[2]State levies no general sales tax.

[3]State levies no personal income tax.

Source: Compiled by ACIR staff from various publications of the U.S Bureau of the Census.

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States, the property tax burden is less than the sales tax burden alone. Although all but one of these 17 States levy personal income taxes, the income tax burden generally is not larger than the relatively light property tax burden. Hawaii—the only State that finances elementary and secondary education almost 100 percent at the State level—is an obvious exception, with the highest sales and personal income tax load in the Nation.

Summary

The foregoing analysis indicates a broad range in the property tax burden—from fairly light in the South to extremely heavy in many of the Northern tier of States—even after allowance for the relatively low income levels in the South. This extremely varied pattern represents a difficult challenge to the development of any National program to relieve residential school property taxes. As might be expected, the States themselves have developed a variety of property tax relief programs to meet their perceived needs. *(See Chapter V.)*

The Property Tax Base

At one time, the property tax approached a truly comprehensive tax on private wealth. In addition to real estate, it legally encompassed most personal property: intangibles, such as money, debts and securities; as well as tangibles, such as household belongings, business inventories and equipment, livestock, tractors and other farm personalty.

With the passage of time, the property tax base has been narrowed—particularly to exclude many types of personal property. Intangible personal property was the first to be removed from the base, mainly because it was difficult to locate. In addition, because income from intangibles is taxed under Federal and State income tax laws, the specter of double taxation arises where intangible personalty is subject to property taxation. Household goods have been exempted from property taxation because locating them and obtaining accurate valuations presents administrative difficulties. Yields from taxation of household goods therefore have been minimal. And in recent years, there has been a tendency for States to eliminate business personal property, particularly inventories, from the tax base.[1] All personal property is exempt from property taxation in five States: Delaware, Hawaii, North Dakota, New York and Pennsylvania.

The property tax has thus become increasingly a tax on real estate. *(See Table 9.)*

Property Tax Increasingly a Tax on Housing

Of the $40.2 billion in property taxes collected by local governments in fiscal 1972, $31.7 billion came from realty.* A closer look at the sources from which local property tax collections were derived reveals that a little more than $20 billion was levied against residential property (including apartment houses and farm dwellings). That represents more than three-fifths of the total real estate taxes (excluding taxes on public utilities). The residential portion has been increasing. Assessed value data from the 1957, 1962 and 1967 *Censuses of Governments* indicate a steady growth in the proportion attributed to residential assessments, and a steady drop in industrial and commercial assessments. *Thus, the property tax is also increasingly a tax on housing.* This fact may explain in part the intensity of public disfavor with the property tax. Moreover, as the tax becomes more residential it also becomes more regressive.

Taxes and Tax Policy: A Survey of Public Attitudes

Democracy is the recurrent suspicion that more than half the people are right more than half the time.

E. B. White

Americans have strong—and negative—feelings about their local property tax, considering it the least fair of the major tax sources. Yet, they were evenly divided in their attitude toward the Federal government raising its taxes to help reduce the local property tax. Although some 44 percent preferred a Federal "hands-off" policy, 32 percent favored a new value-added tax and 14 percent favored higher individual income taxes to help provide property tax relief.

These were two of the major findings that emerged from a *Public Appraisal of Major Types of Taxes* conducted for the Advisory Commission on Intergovernmental Relations by the Opinion Research Corporation in March of 1972. *(For a more detailed report of the poll, see Appendix B.)* In addition, the survey revealed these taxpayer opinions:

- The Federal government gives the taxpayer the most for his tax dollars.
- The Federal personal income tax is the Nation's fairest tax and the local property tax is the least fair tax.
- If the National government has to raise substantial tax revenues, the elimination of special tax treatment for various items in the Federal income tax is the preferred approach.
- States should use the sales tax if they are forced to raise large amounts of new tax dollars.

*An additional amount came from real estate owned by public utilities, which paid some $3 billion on both their personal and real property.

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TABLE 9—WHO PAYS THE LOCAL PROPERTY TAX?
Estimated Local Property Tax Collections By Source, 1972[1]

Source	Amount (millions)			Percentage distribution		
Nonbusiness						
Nonfarm residential realty[2]	$19,023			47.3		
Farm realty[3]	817			2.0		
Vacant lots	320			0.8		
Total nonbusiness realty		$20,160			50.1	
Nonfarm personalty[4]	657			1.6		
Farm personalty	113			0.3		
Total nonbusiness personalty		770			1.9	
Total nonbusiness			$20,930			52.1
Business						
Farm realty[5]	1,860			4.6		
Vacant lots	480			1.2		
Other realty[6]	9,170			22.8		
Total business realty		$11,510			28.6	
Farm personalty[7]	454			1.1		
Other personalty[8]	4,287			10.7		
Total business personalty		4,741			11.8	
Public utilities		3,019			7.5	
Total business			19,270			47.9
Total			$40,200[9]			100.0

1 ACIR staff estimates based on estimated 1972 collections distributed on basis of 1967 Census data, latest available statistics.

2 Includes both single-family dwelling units and apartments. An estimated $14 billion or 36 percent of all local property taxes was derived from single-family homes; about $5 billion or 12 percent of property tax revenue came from multi-family units.

3 Estimated collections from the taxation of the "residential" element of the farm.

4 The collections produced through the taxation of furniture and other household effects.

5 Estimated collections from the taxation of land and improvements actually used in the production of agricultural products—this is exclusive of the land and buildings used in a residential capacity by the farmer.

6 Commercial and industrial real estate other than public utilities.

7 The estimated collections from the taxation of livestock, tractors, etc.

8 Estimated collections from the taxation of merchants' and manufacturers' inventory, tools and machinery, etc.

9 This is the estimated grand total for *local* property tax receipts. In addition, there is an estimated $1.3 billion in State property taxes. The data needed for a similar distribution of State receipts is not available. However, it is estimated that approximately $450 million of the State receipts are derived from general property taxes and could probably be distributed among the various sources of revenue in the same proportion as local receipts. The remaining $850 million in State receipts consists mainly of State special property taxes on business personal property, but includes a substantial amount from special property taxes on motor vehicles, most of which is collected by the State of California.

Source: ACIR compilation.

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The Least Fair Tax

Of the major tax sources presently used by the three governmental levels, the local property tax was decisively selected as being the least fair. When specifically asked, "Which do you think is the worst tax, that is, the least fair?", the nationwide results were:

	Percent of Total U.S. Public
1. Local Property Tax	**45**
2. Federal Income Tax	**19**
3. State Income Tax	**13**
4. State Sales Tax	**13**
5. Don't Know	**10**

Because the property tax is levied and administered by myriad local governmental units, one might have expected public attitudes toward this tax source to show a high degree of variation. But, opposition to the local property tax was uniform among respondents of various socio-economic backgrounds. Regardless of age, income, area of residence, type of employment, race and other such factors, each subclassification decisively chose the property tax as the least fair—and generally by margins of 2 to 1. *(See Appendix B, Question B5.)* The Federal income tax provoked the second largest number of negative responses while State sales and income taxes encountered the least public antipathy. These attitudes also were fairly uniform regardless of background.

Any variation in hostility to the local property tax is superimposed over this general current of opposition. Among the groups with the most decisively negative feelings were the elderly (60 years or over), farmers and those residing in the North Central* and Western** regions of the country. Those least opposed to the local property tax included residents in the Southern*** States (where property taxes are lowest) and the Northeastern**** States (where they are highest), renters and the young (those under 40). Even among these latter groups of respondents, however, the property tax was decisively chosen as the least fair of the major tax sources available to governmental levels.

Substituting Federal Taxes for the Local Property Tax

Public dissatisfaction with the local property tax has led to a current proposal to substitute a Federal value-added tax to help reduce the local property tax. Only 32 percent of the respondents indicated agreement with this course of action, but an additional 14 percent preferred higher Federal individual income taxes to achieve property tax reduction. Taken together, 46 percent favored some form of Federal intervention to reduce local property taxes; this was almost exactly counterbalanced, however, by 44 percent of the respondents who felt neither course of Federal action should be pursued. Here is the specific question and responses:

Here are three statements about taxes. Which of the statements agrees most with your own

	Percent of Total U.S. Public
1. The Federal government should start a value-added tax (a form of National sales tax) and use the money to help reduce local property taxes.	**32**
2. The Federal government should not start a value-added tax (a form of National Sales tax) but should raise individual income taxes to help reduce local property taxes.	**14**
3. The Federal government should take neither of these actions to help reduce local property taxes.	**44**
4. Don't know.	**10**

Generally, subgroups of respondents (categorized according to age, sex, income, education, etc.) held the same preferences as the respondents in general. That is, in each category more respondents preferred no Federal involvement in reducing the local property tax to either a Federal value-added tax or higher individual income taxes for that purpose. *(See Appendix B, Table B-7.)*

Comparing responses of those indicating a preference for Federal action to help reduce local property taxes with those who prefer a "hands-off" Federal option yields some interesting results. A

*__The North Central region comprises__ Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas.

**__The Western region comprises__ Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, Washington, Oregon, California.

***__The Southern region comprises__ Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma, Texas.

****__The Northeastern region comprises__ Maine, New Hampshire, Vermont, Masscahusetts, Rhode Island, Connecticut, New York, New Jersey and Pennsylvania.

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profile of those most likely to favor Federal intervention would be men, sixty years or older, with less than a high school education, living in a non-metropolitan area outside of the southern States and perhaps owning their own homes. Those opposed to Federal action to help reduce local property taxes would be women, less than sixty years of age, with at least a high school education, living in the non-metropolitan areas (50,000 or less population), particularly in the South. On the other hand, neither income level nor race appear to be critical factors with respect to these attitudes. There is no systematic response among income levels, for example, and both whites and non-whites favor Federal action, the latter by a more decisive margin.

Level of Government

Despite the traditional view of grass roots democracy and local involvement, more Americans feel they receive most for their money from the Federal sector—not local governments and certainly not the States. The specific question and the national response were, "From which level of government do you feel you get the most for your money—Federal, State or local?"

	Percent of Total U.S. Public
1. Federal	**39**
2. Local	**26**
3. State	**18**
4. Don't know	**17**

This pattern of responses—Federal, local and then State—held for each of the subgroups of respondents, except for those living in the western States, where the choice between the State and local sector was a stand-off at a level half that for the Federal government. *(See Appendix B, Table B-6.)* Preferences for the Federal sector were particularly strong among non-whites, and those living in metropolitan areas of one million or more. Somewhat surprising is the preference that those in the $5,000-$6,999 category had for the Federal government since this percentage exceeds the national average by 48 percent to 39 percent. On the other hand, the preferences for the income classes immediately above and below the $5,000 to $6,999 income group are more in line with the national percentage while generally sharing the same preference pattern as other subgroups; those aged 50 to 59 as well as those residing in rural non-metropolitan areas were less decisively inclined to favor the Federal sector.

Local governments, the second choice of virtually all subgroups of respondents, found somewhat greater (than the national average) acceptance among those 40 to 59 years of age, people with at least some college education, individuals employed in managerial capacities, and those earning $7,000 and over. Those inclined to view local governments less favorably than the countrywide average—but still in second place—were people under 40, 60 years or over, and renters of homes. State governments, standing as the third preference of respondents are somewhat more favored (than the nationwide figure) by those 18 to 29 years of age. Non-whites, on the other hand, had distinctly less preference for the State sector.

The Fairest Tax

The Federal income tax was chosen as the Nation's fairest by 36 percent, with State sales taxes a close second, 33 percent. The specific statement and the tabulation of responses for the Nation as a whole were:

Here is a list of the major types of taxes in the country today. Which do you think is fairest?

	Percent of Total U.S. Public
1. Federal income tax	**36**
2. State sales tax	**33**
3. State income tax	**11**
4. Local property tax	**7**
5. Don't know	**13**

Although the Federal income tax was preferred* to State sales taxes nationwide and for most subgroups of respondents, there were a goodly number of socio-economic groups that reversed this order. Included among those whose first preference was the State sales tax were women, people aged 30 to 39 and those 50 and over, residents of rural and urban non-metropolitan areas, those living in the southern States, individuals earning $10,000 to $15,000 and homeowners. State income taxes were distinctly third and local property taxes fourth, with few reversals of preferences among population subgroups. *(See Appendix B, Table B-4.)*

The Federal income tax was particularly favored by men, people aged 40 to 49, those who completed high school, individuals employed in professional capacities and residents of the northeastern States. Residents of rural non-metropolitan areas tended to view the Federal income tax far less favorably than their nationwide counterparts—as did residents of southern States, individuals 30 to 39 years of age as well as those 60 years and over, persons with less than a high school education and residents of urban non-metropolitan areas.

The State sales tax found greater than average

*Note that although the Federal income tax was chosen as the fairest tax, it also received the second largest number of votes as the least fair tax.

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acceptance by those 50 to 59 years of age, individuals with at least some college education, people living outside the northwestern region as well as those with incomes $10,000 to $15,000. A sharply less favorable response, however, was registered by residents of the northeastern States, non-whites and renters.

Best Method of Raising Federal Taxes

If the Federal government were forced to raise taxes substantially, most respondents preferred that the special tax treatment accorded to various groups be reduced. The specific question and the national response were:

Suppose the Federal government must raise taxes substantially, which of these do you think would be the best way to do it?

	Percent of Total U.S. Public
1. Collect a Value Added Tax (VAT), a form of National sales tax on things other than food and similar necessities.	34
2. Raise individual income tax rates.	10
3. Raise money by reducing special tax treatment for capital gains and cutting tax deduction allowances for charitable contributions, State and local taxes, medical expenses, etc.	40
4. Don't know	16

Somewhat surprising in light of the rather small difference between the VAT and the "base-broadening" approach to the Federal income tax for the Nation as a whole is the degree of consistency in preferences displayed among groups of respondents. Indeed, only two such groups—professionals and residents of urban non-metropolitan areas—chose the value-added tax as the best method to raise additional Federal tax revenues. Rate increases on the individual income tax were chosen as the best method by only 10 percent. *(See Appendix B, Table B-1.)*

The value-added tax approach, however, was regarded as being the next best way of raising substantial Federal tax revenues, with a broader-based Federal income tax being a close second. The specific responses to the question "Which do you think would be the next best way?" were:

	Percent of Total U.S. Public
1. Collect a Value Added Tax (VAT), a form of National sales tax on things other than food and similar necessities.	29
2. Raise money by reducing special tax treatment for capital gains and cutting tax deduction allowances for charitable contributions, State and local taxes, medical expenses, etc.	27
3. Raise individual income tax rates.	18
4. Don't know.	26

Raising individual income tax rates was again the third choice of respondents. *(See Appendix B, Table B-2.)*

Best Method of Raising State Taxes

The State sales tax proved to be the most popular way to raise additional revenues for the State governments.

When asked "Suppose your State government must raise taxes substantially, which of these do you think would be the best way to do it—State income tax, State sales tax or State property tax?," the national response was:

	Percent of Total U.S. Public
1. State sales tax	**46**
2. State income tax	**25**
3. State property tax	**14**
4. Other	**5**
5. Don't know	**10**

This pattern of responses—sales, income, property—held without exception for each subgroup of respondents. *(See Appendix B, Table B-3.)* Those with greater than average preference for the sales tax were individuals living in the north central and western States, people earning $10,000 or over and homeowners. By way of contrast, renters and those earning less than $5,000 were sharply less enthusiastic about the State sales tax, though still considering it the best available alternative for State governments.

The State income tax—while the second choice—found greater acceptance among men and those 18 to 29 years of age than was true for the Nation as a whole. Individuals aged 50 to 59, however, varied in the negative direction from the national average.

A statewide property tax found greater acceptance among renters and those 18 to 29 years of age than other population segments but was distinctively less appealing to individuals 60 and over, residents of the north central States and homeowners.

Other Polls

The findings of the ACIR-sponsored poll reinforce an earlier poll conducted by the Urban Observatory

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TABLE 10 – THE ESTIMATED BURDEN OF MAJOR FEDERAL, STATE AND LOCAL TAXES FOR A HYPOTHETICAL FAMILY OF FOUR, EARNING $5,000 IN 1953 AND $12,000 IN 1972

Type of tax	1972		1953		Percentage increase in tax related to income 1953 – 1972
	Tax as % of family income	Percentage distribution	Tax as % of family income	Percentage distribution	
Total	20.2	100.0	11.8	100.0	71.2
Federal personal income tax	9.7	48.0	7.6	64.4	27.6
Social security tax (OASDHI)	3.9	19.3	1.1	9.3	254.5
Major State and local taxes	6.6	32.7	3.1	26.3	112.9
Property	3.4	16.8	2.2	18.6	54.5
Personal income	1.8	8.9	0.3	2.5	500.0
General sales	1.4	6.9	0.6	5.1	133.3
Exhibit:					
Major State & local plus OASDHI Taxes as % of Federal income tax	108.2	–	55.3	–	–

[1]Assumes all income from wages and salaries and earned by one spouse.
SOURCE: ACIR staff computations.

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program of the National League of Cities. In that poll, the respondents indicated a very strong preference for sales taxes if their local governments had to raise more revenue. Their second preference was a local income tax with higher property taxes registering a very poor third.[2]

Another poll, conducted by George H. Gallup, showed that 55 percent favor and 34 percent oppose an increase in State taxes so that real estate taxes could be lowered on local property. However, 51 percent oppose and only 35 percent favor creating a National sales or value-added tax in order to reduce local property taxes. This poll also asked people whether they would vote for or against a tax increase if the local public schools said they needed more money. Of those queried, 56 percent indicated they would vote against an increase and only 36 percent indicated they would vote for it.[3]

The Causes of Unpopularity

Why is the property tax the most unpopular of all major taxes? This question takes on added significance because over the last twenty years the property tax load borne by the average family has grown more slowly than have the burdens of most of the other major taxes. *(See Table 10.)*

While no tax is popular, the property tax possesses certain irritating characteristics that are quite unique.

- No other major tax in our public finance system bears down so harshly on low-income households, or is so capriciously related to the ability to pay taxes.

- When compared to the preferential treatment accorded shelter outlays under both the income and sales taxes, the property tax stands out clearly as an anti-housing levy. Moreover, as the tax increases steadily, it is viewed as a growing threat to homeownership.

- Unlike income and sales taxes, the property tax imposes a levy on unrealized capital gains. Undoubtedly, many property owners do not share the view held by most economists that this constitutes an acceptable method for taxing income. Homeowners, especially, are apt to dismiss the increase in the value of their home as mere "paper profit" that they do not intend to convert into "spendable income."

- The administration of the property tax is far more difficult than is the case with either the income or sales tax. At best, the property tax assessment is based on an informed estimate of the market value of the property. The subjective judgment of market value seems all the more arbitrary during times of inflation and in jurisdictions experiencing rapid changes in property values.

- The dramatic increase in taxes (and the resultant taxpayer shock) that often follows in the wake of an infrequent mass re-appraisal has no parallel in the administration of the income or sales tax.

- The property tax is more painful to pay than the "pay as you go" income and sales taxes. This is especially true for those property taxpayers who are not in a position to pay the tax on a monthly installment basis.

- The property tax has the worst public image. For more than fifty years, this tax has been cited by both political leaders and tax scholars as the most wretchedly administered tax.

The factors cited above have combined to make the property tax the most disliked of all of our major revenue instruments. They also explain why the "felt burden" of this tax is greater than that suggested by the economic analysis set forth in Table 10.

Despite its obvious defects and poor public image, the property tax has significant political and fiscal virtues. First, it is the one major revenue source directly available to local government and therefore serves as the traditional defense against centralization. Second, it is the one tax in general use that can recapture for the community the property values the community has created. Third, its high visibility makes it a force that works in favor of greater public accountability.

Beyond these three considerations there is the inescapable element of fiscal realism—the Nation's local governments will not quickly come up with an acceptable substitute for this powerful $45 billion revenue producer. Prudent public policy, therefore, would dictate the adoption of measures designed to reduce the irritant content of this levy.

FOOTNOTES

[1]ACIR, State and Local Finances: *Significant Features and Suggested Legislation*, 1972 Edition (M-74), p. 246.

[2]*Nation's Cities*, August 1971, p. 15.

[3]*Phi Delta Kappan*, September 1972, pp. 33-46.

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chapter IV

the property tax burden

Two questions are raised in this chapter: (1) Is the property tax regressive—that is, does it bear more heavily on low-income families than on those with high incomes? (2) What tests should be used to measure property-tax overburden and to determine appropriate relief?

The Regressivity Issue

The impact of the residential property tax can be viewed in two contrasting ways. The traditional view holds that in the final analysis the property tax is borne by renters and consumers, and that the best measure of ability to pay taxes is the annual flow of money income into the household. A counter view, held by some economic theorists, contends that the property tax ultimately is borne entirely by owners of capital. If the property tax burden falls on renters and consumers, it is regressive throughout the entire income range. If it bears entirely on capital, it is regressive up to the $10,000—$15,000 income class and becomes progressive in the upper-income ranges.

Incidence of the Property Tax *

Tax incidence is the effect of a tax on the real income of different people. The incidence of a tax on an individual's income comes about in three ways: (1) through changes in his legal tax liability (the size of the check he sends to the government to pay the tax); (2) through changes in the prices of things he sells (his labor and the services of any capital or land that he may own); and (3) through changes in the prices of things he buys (goods and services of all sorts). A typical tax will have effects of all three types, and these effects may be cumulative or offsetting in their impact on a given individual. For the sake of simplicity, the concept of tax incidence is usually treated in terms of the effect of the tax on the income of representative individuals in various income classes.

Composition of the Property Tax. Taxes on real property are the source of about four-fifths of State-local property tax collections; taxes on personal property account for about one-seventh and taxes on utility property (which is a combination of realty and personalty) make up the balance. Of the real estate taxes, about 40 percent derive from land and about 60 percent from structures.[1] Thus, of total State and local property tax collections, about 30 percent comes from land, 50 percent from structures,

*A listing of the major works relating to property tax incidence appears in Appendix C.

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and 20 percent from tangible personal property (including utilities).*

Property Tax Incidence: Land and Buildings. What can be said about the incidence of the property tax?

Land. Insofar as the property tax falls on land, it will result in a one-time decrease in the price of land and a capital loss to its owner at the time the tax is imposed or increased. This comes about because the quantity of land is completely fixed. Land, for all practical purposes, cannot be created or destroyed. Landowners cannot collectively supply more or less land to the market. Potential renters need bid no more for the land than they did before the property tax was imposed, since the owner must rent the land to someone (if only to himself). Potential buyers will bid less, since they will now be liable for the property tax and their potential rental income will be no greater.

Once the property tax rate has been increased, it has no further effect in subsequent years until it is changed again. New buyers of land will pay the tax in the nominal sense that they write the check for the annual amount, but they do not bear the burden of the tax in any fundamental sense because the tax caused the purchase price of the land to be lower by an amount sufficient to compensate for these expected annual tax payments. There is general agreement that the owner ultimately pays the property tax on the land.

Buildings. There are two views, however, as to who pays the property tax on improvements. According to the traditional position, the renter pays the property tax on residences and the consumer pays the property tax on commercial and industrial property in the form of higher prices for the goods purchased. The property tax is thus viewed as initially reducing the rate of return to capital in improvements thereby slowing investment and resulting in higher prices for the services provided by such assets.

Dick Netzer recently forcefully summarized this traditional view of property tax incidence:

> . . . the component of the property tax that falls on housing amounts to the equivalent of a very stiff sales tax on consumer expenditures for housing. We tax housing more heavily than any other item of consumer expenditure in the United States with the exception of liquor, tobacco, and gasoline. I think it is a grotesque social policy to tax something we all agree is a good thing, more heavily than almost anything else a consumer chooses to spend money for.
>
> The property tax on housing in American cities is probably the most seriously regressive aspect of the entire American fiscal system. Other taxes that can be said to be more regressive are only minor revenue producers. Of the *major* taxes, this one is by far the most regressive.[3]

A more recent view of property tax incidence holds that the initially lower rate of return on property improvements does not offset the total level of investment but simply channels investment into areas of the economy that are less heavily taxed. That leads to a generally lower rate of return on all investment and, according to this view, the property tax is ultimately borne by the owners of capital.

*Dick Netzer estimated that 60 percent of personal property was legally taxable in 1956-58. Since that time many States have removed one or more items of personal property from the tax rolls.[2]

Table 11

Ratio of Wealth to Income, by Age Group and Income Bracket, 1962

Income Bracket	Age of Head: Under 35	35—54	55—64	65 and Over	All Ages
$ 0 - 2,999	1.1	2.7	7.3	6.3	4.8
3,000 - 4,999	0.3	1.8	4.3	6.0	2.5
5,000 - 7,499	0.8	2.0	3.3	6.2	2.1
7,500 - 9,999	0.7	1.8	4.6	6.7	2.2
10,000 - 14,999	0.9	2.0	3.1	7.3	2.3
15,000 - 24,999	1.3[1]	2.6	4.8	9.3	3.5
25,000 - 49,999	38.9[1]	5.7	7.7	11.0	8.4
50,000 - 99,999	11.9[1]	11.7	9.2	11.3	10.7
100,000 and over	—[1]	14.2	19.5	7.4	10.7
All Incomes	1.1	2.5	4.9	7.5	3.3

[1]Sample size of ten or less

Source: Computed from data in U.S. Board of Governors of the Federal Reserve System, *Survey of Financial Characteristics of Consumers* (Washington: 1966).

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Those who view the property tax as a tax on wealth or on capital also point to the fact that capital ownership is largely concentrated in the higher-income brackets. (*See Table 11.*) Therefore, according to this view of property tax incidence, any reduction in the rate of return to assets brought about by the property tax results in a progressive distribution of the tax burden.[4] Some people with a low current income possess considerable property holdings, however. Therefore, even when the tax is viewed as borne solely by capital, the overall burden falls in a U-shaped pattern.

There is no consensus on the incidence of the property tax as it relates to buildings, but it seems likely that the burden distribution lies somewhere between these two theoretical views.

In reality, the property tax is levied everywhere, but it is not imposed equally on all uses of capital. Not all of the funds that are invested in a business manifest themselves in property subject to the tax. Some of the capital invested in a business does not take the form of physical property but is rather in cash for transaction purposes or in accounts receivable. Furthermore, not all physical property (inventories in some places, machinery in others, for example) is subject to ad valorem taxation. Thus, housing is taxed more heavily than other business by the property tax. (*See Table 12.*) This will cause investors to apply more of their funds to other businesses and less to rental housing. The supply of rental housing will be reduced and the price will increase. The tax is thus partially borne by renters. Yet capital is not unaffected. As investors place more of their funds in other businesses where the property tax burden is lighter, they drive down the rate of return on all funds invested in these other businesses. Thus all capital, whether invested in housing or in other businesses, bears the burden of the tax in part.

Table 12
Property Taxes as a Percent of Income From Capital, 1953-59

Industry group	Property Tax
Manufacturing	6.7
Residential Real Estate	26.7
Agriculture, Forestry, and Fishing	16.5
Mining	10.9
Construction	9.2
Trade	9.2
Transportation	17.6
Communications and Utilities	16.8
Services	15.9
All Non-Financial Industries	**14.2**

Source: Leonard G. Rosenberg, "Taxation of Income from Capital, by Industry Group," in Arnold C. Harberger and Martin J. Bailey (eds.), *The Taxation of Income from Capital* (Washington: The Brookings Institution, 1969) pp. 174-177.

Furthermore, property tax rates vary greatly from one region to another and investors can choose where to use their capital. As a result, tenants and other users of local facilities in higher tax regions must bear the burden of the higher taxes that must be paid if the capital is to be used to provide housing and other local facilities in those regions. In short, the burden of the property tax will be divided between renters (and other consumers) on the one hand and investors (owners of capital) on the other, on the basis of real world variations in ad valorem taxation between alternate uses and locations of the capital.

Property Tax Incidence by Income Class

The differing views regarding the property tax on structures, necessitate three alternative distributions of the property tax burden. (*See Table 13.*) Column A assumes the tax on structures is borne by capital only; Column C assumes the tax is borne by renters and consumers; Column B makes a straightforward division of the burden between renters and owners of capital by taking an average of the rates shown in the other two columns.

If the traditional view of the property tax is held, then the classic pattern of a regressive tax emerges. The burden of the property tax falls steadily from 13.0 percent for those earning less than $3,000 to 2.1 percent for those earning one million dollars or more. If the property tax is viewed as falling on owners of capital only, then the burden distribution is U-shaped—revealing a regressive pattern for those earning less than $15,000 and a progressive pattern beyond. In the intermediate case, the U-shaped pattern also emerges, but the tax is regressive for those with incomes of less than $20,000, and progressive thereafter.

It is clear that the burden of the property tax is heavier for the lower-than middle-income groups regardless of which assumption is made. Since approximately 70 percent of the families have an income of $15,000 or less, it is also clear—again regardless of assumptions as to property tax incidence—that the tax is regressive for the majority of families.

The Property Tax as a Tax on Housing*

To the extent that the property tax results in an increase in rentals, the relationship between income

*This discussion deals with the relationship between residential property taxes and *annual* household income. See Appendix D for a discussion of the property tax and the life-cycle income hypothesis.

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Table 13

Incidence of the Property Tax Under Alternative Assumptions, 1972

Income Class	Property Tax Burden as Percent of Income Assuming That the Tax on Improvements is Borne by		
	Capital Only[1] A	Intermediate Cases B	Renters and Consumers Only[2] C
$ 0- 2,999	7.2%	10.1%	13.0%
3,000- 4,999	5.4	6.7	8.0
5,000- 9,999	3.6	4.8	5.9
10,000- 14,999	2.6	3.8	4.9
15,000- 19,999	2.9	3.8	4.7
20,000- 24,999	3.7	4.1	4.4
25,000- 49,999	5.7	5.1	4.4
50,000- 99,999	14.1	8.9	3.7
100,000-499,999	22.4	13.0	3.5
500,000-999,999	24.5	13.8	3.0
1,000,000 and Over	18.2	10.2	2.1
All Incomes	**5.0**	**5.0**	**5.0**

Note: Property taxes include all levies by State and local governments on automobiles; livestock; commercial, industrial, and residential property; etc. *Income is equal to the sum of Federal adjusted gross income, transfer payments, State and local government bond interest and long-term capital gains excluded from Federal income taxation.* The tax on land is distributed on the basis of income from capital under all sets of assumptions. (The exclusion of imputed income from owner-occupied homes from the definition of income somewhat overstates the estimated progressivity of the tax in columns A and B. Imputations in the national income accounts for interest, net rent, and proprietors' income associated with owner-occupied homes amount to some 18 percent of total proprietors' income, rents, dividends and interest.)

[1]Property taxes other than levies on non-farm motor vehicles and agricultural property are distributed on the basis of total property income; the tax on cars is distributed using the value of cars owned by the family; and agricultural taxes are distributed on the basis of gross farm value.

[2]It is assumed that the tax on owner-occupied homes falls on the owner-occupier and that the tax on apartments rests on tenants in proportion to rents paid. The tax on commercial and industrial improvements is allocated on the basis of general consumption, and the tax on farm improvements is allocated among farmers and consumers in general.

Source: Charles L. Schultze, Edward R. Fried, Alice M. Rivlin, and Nancy H. Teeters, *Setting National Priorities, The 1973 Budget* (Washington: Brookings Institution, 1972). Columns A and C are from p. 445. Other column from ACIR staff computations based on p. 445 and p. 447.

and housing expenditures is the key factor in determining property tax incidence.

Professional opinion holds that the lower a family's income, the larger the portion of income it spends on housing. Moreover, as a family moves up the income scale, the percentage of income spent on housing declines more rapidly than the percentage spent on other consumption items. This pattern appears in the findings of the *1960-61 Consumer Expenditure Survey* conducted by the U. S. Bureau of Labor Statistics. (*See Table 14.*) Because of this overall relationship between housing expenditure and income, the percentage of income paid by homeowners to meet property tax liabilities also falls sharply as income rises.

A precipitate drop in the property tax element of housing expenditures relative to income is demonstrated in special tabulations prepared for ACIR by the U.S. Bureau of the Census.*

For the Nation as a whole, and for each major

*The Census definition of income is the sum of: (a) money wages or salaries; (b) net income from non-farm self employment; (c) net income from farm self employment; (d) social security benefits; (e) dividends, interest (on savings or bonds), income from estates or trusts or net rental income; (f) public assistance or welfare payments; (g) unemployment compensation, government employee pensions or veternas' benefits; (h) private pensions, annuities, alimony, regular contributions from persons not living in the household, net royalties, and other periodic income.

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geographic region, the property tax burden as a percent of income of the lowest-income groups (under $2,000) was several times that of the highest-income class ($25,000 or more). (*See Table 15.*) Nationally, the very low-income families had a burden nearly six times that of the higher-income class. In the Northeast, this ratio was nearly eight-to-one; in the northcentral States, almost seven-to-one; in the South, close to five-to-one; and in the West, approximately eight-to-one. In each region, property tax as a percentage of family income falls steadily, markedly and without interruption as income climbs.

In 1970, homeowners paid an average (median) of 3.4 percent of their income in property taxes.* In striking contrast, over six million elderly homeowners paid an average (median) of 5.2 percent of their income in property taxes. (*See Table 16.*) For the Nation as a whole, and in each major geographic region, the same pattern of a steeply regressive tax emerges. The property tax collector took an average of 15.8 percent from the low-income elderly nationally—29.3 percent in the Northeast, 16.6 percent in the northcentral States, 7.8 percent in the South and 21.5 percent in the West. Nationally, the non-elderly poor turned over an even higher portion of their income to the property tax collector—18.9 percent. (*See Table 17.*) Both for the Nation as a whole and in each major geographic region, the elderly (65 and over) paid a higher portion of their income in property taxes than any other age group. (*See Table 18.*)

The Property Tax Overburden Issue

At what point does a property tax constitute an extraordinary burden? This issue is controversial and any answer is clearly a matter of individual opinion. Two tests can be used as rough measures of property tax overburden—the value test and the cash flow test.

Value Test

Mabel Walker, a long-time student of the property tax and its effects, has taken the position that the real estate tax burden should not exceed 2 percent of market value:

"What is a fair tax rate?" or "What should be

*The median is a more significant measure of central tendency than the arithmetic mean, especially where the distribution is highly skewed. The difference between the 3.4 percent median and the 4.9 percent arithmetic mean can be explained by the very high property tax loads borne by low-income households. The distribution is also skewed because property tax rates vary so much from region to region.

Table 14

Relation of Expenditures on Shelter and Expenditures for Other Current Consumption to Family Income and to Each Other, All Families and Single Consumers, by Income Class, 1960-61

Family Money Income After Personal Taxes	Average Shelter Expenditures as Percent of Total Income[1]	Average Expenditures on Consumption Items Other Than Shelter as Percent of Income	Ratio of Shelter Expenditures to Other Consumption Expenditures
Under $1,000	33%	153%	21%
$ 1,000 - 1,999	19	90	21
2,000 - 2,999	15	84	18
3,000 - 3,999	13	82	16
4,000 - 4,999	11	77	15
5,000 - 5,999	11	73	15
6,000 - 7,499	10	71	15
7,500 - 9,999	9	67	14
10,000 - 14,999	8	62	13
15,000 and Over	6	45	14
All Incomes	**10**	**70**	**15**

[1]Total income includes money income before taxes, other money receipts, and value of items received without expense.

Source: Computed from data in U.S. Bureau of Labor Statistics, *Consumer Expenditures and Income: Survey Guidelines* (Washington: U.S. Government Printing Office, 1971), Table B-9, pp. 90-91.

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TABLE 15—REAL ESTATE TAXES AS A PERCENTAGE OF FAMILY INCOME, OWNER-OCCUPIED SINGLE-FAMILY HOMES, BY INCOME CLASS AND BY REGION, 1970

Family income[1]	United States Total	North-east Region	North-central Region	South Region	West Region	Exhibit: No. and distribution of homeowners	
						No. (000)	% dist.[2]
Less than $2,000	16.6	30.8	18.0	8.2	22.9	1,718.8	5.5
$2,000 - 2,999	9.7	15.7	9.8	5.2	12.5	1,288.7	9.7
3,000 - 3,999	7.7	13.1	7.7	4.3	8.7	1,397.8	14.1
4,000 - 4,999	6.4	9.8	6.7	3.4	8.0	1,342.8	18.5
5,000 - 5,999	5.5	9.3	5.7	2.9	6.5	1,365.1	22.8
6,000 - 6,999	4.7	7.1	4.9	2.5	5.9	1,530.1	27.8
7,000 - 9,999	4.2	6.2	4.2	2.2	5.0	5,377.4	45.0
10,000 - 14,999	3.7	5.3	3.6	2.0	4.0	8,910.3	73.6
15,000 - 24,999	3.3	4.6	3.1	2.0	3.4	6,365.6	94.0
25,000 or more	2.9	3.9	2.7	1.7	2.9	1,876.9	100.00
All incomes						31,144.7	
Arithmetic mean	4.9	6.9	5.1	2.9	5.4		
Median	3.4	5.0	3.5	2.0	3.9		

[1] Census definiton of income, see footnote on page 00. Income reported received in 1970.

[2] Cumulated from lowest income class.

Source: U.S. Bureau of the Census, *Residential Finance Survey, 1970* (conducted in 1971), special tabulations prepared for the Advisory Commission on Intergovernmental Relations. Real estate tax data were compiled for properties acquired prior to 1970 and represent taxes paid during 1970. Medians were computed by ACIR staff.

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TABLE 16—REAL ESTATE TAXES AS A PERCENTAGE OF FAMILY INCOME, OWNER-OCCUPIED SINGLE-FAMILY HOMES, HOMEOWNERS AGE 65 AND OVER, BY INCOME CLASS AND BY REGION, 1970

Family income[1]	United States Total	North-east Region	North-central Region	South Region	West Region	Exhibit No. and distribution of homeowners age 65 and over	
						No. (000)	% dist.[2]
Less than $2,000	15.8	29.3	16.6	7.8	21.5	1,280.8	20.3
$2,000 - 2,999	9.5	14.4	9.3	5.3	11.5	906.1	34.7
3,000 - 3,999	8.0	11.9	7.6	5.3	8.5	825.9	47.9
4,000 - 4,999	7.3	10.6	7.2	3.7	8.7	651.6	58.2
5,000 - 5,999	6.2	9.6	6.1	3.5	6.5	437.5	65.2
6,000 - 6,999	5.8	7.7	6.1	3.4	6.1	388.8	71.3
7,000 - 9,999	4.8	6.5	5.3	2.5	5.7	714.7	82.7
10,000 - 14,999	3.9	5.4	3.9	2.4	4.1	565.7	91.7
15,000 - 24,999	3.3	4.7	3.3	2.1	3.3	339.5	97.1
25,000 or more	2.7	3.2	2.9	1.8	3.0	183.4	100.0
All incomes						6,294.0	
Arithmetic mean	8.1	11.4	8.6	4.7	9.1		
Median	5.2	8.1	5.8	2.9	6.1		

[1] Census definition of income, see footnote on page 00. Income reported received in 1970.

[2] Cumulated from lowest family income class.

Source: U.S. Bureau of the Census, *Residential Finance Survey, 1970* (conducted in 1971), special tabulations prepared for the Advisory Commission on Intergovernmental Relations. Real estate tax data were compiled for properties acquired prior to 1970 and represent taxes paid during 1970. Medians were computed by ACIR staff.

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TABLE 17—REAL ESTATE TAXES AS A PERCENTAGE OF FAMILY INCOME FOR ELDERLY AND NON-ELDERLY SINGLE-FAMILY HOMEOWNERS, BY INCOME CLASS, 1970

Family income[1]	Real estate tax as a % of family income		Exhibit: Number of homeowners (000)				
	Elderly (age 65 and over)	Non-elderly (under 65)	Total	Elderly		Non-elderly	
				Number	% of total	Number	% of total
Less than $2,000	15.8	18.9	1,719	1,281	74.5	438	25.5
$2,000 - 2,999	9.5	10.1	1,289	906	70.3	383	29.7
3,000 - 3,999	8.0	7.2	1,398	826	59.1	572	40.9
4,000 - 4,999	7.3	5.5	1,343	652	48.6	691	51.4
5,000 - 5,999	6.2	5.1	1,365	437	32.0	928	68.0
6,000 - 6,999	5.8	4.3	1,530	389	25.4	1,141	74.6
7,000 - 9,999	4.8	4.1	5,377	715	13.3	4,663	86.7
10,000 - 14,999	3.9	3.7	8,910	566	6.4	8,345	93.6
15,000 - 24,999	3.3	3.3	6,337	340	5.4	5,997	94.6
25,000 or more	2.7	2.9	1,877	183	9.8	1,694	90.2
All incomes	8.1[2]	4.1[2]	31,145	6,294	20.2	24,851	79.8

[1] Census definition of income (income from all sources). Income reported received in 1970.

[2] Arithmetic mean.

Source: U.S. Bureau of the Census, *Residential Finance Survey, 1970* (conducted in 1971), special tabulations prepared for the Advisory Commission on Intergovernmental Relations. Real estate tax data were compiled for properties acquired prior to 1970 and represent taxes paid during 1970.

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Table 18

Real Estate Taxes as a Percentage of Family Income,[1] Owner-Occupied Single-Family Homes, by Age of Principal Owner and by Region, 1970

Age of Principal Owner	United States Total	North-east Region	North-central Region	South Region	West Region
Less Than 25 Years	4.0	5.1[2]	4.0	3.0	5.2[2]
25 - 34	4.0	5.9	3.9	2.2	4.5
35 - 44	3.9	5.6	3.9	2.2	4.0
45 - 54	3.9	5.5	3.9	2.2	4.5
55 - 64	4.8	6.7	4.6	3.0	5.4
65 Years or Over	8.1	11.4	8.6	4.7	9.1
All ages	**4.9**	**6.9**	**5.1**	**2.9**	**5.4**

[1]Census definition of income. Income reported was received in 1970.

[2]Based on sample of less than 25 observations.

Source: U.S. Bureau of the Census, *Residential Finance Survey, 1970* (conducted in 1971), special tabulations prepared for the Advisory Commission on Intergovernmental Relations. Real estate tax data were compiled for properties acquired prior to 1970 and represent taxes paid during 1970.

the limit on property tax rates?" are questions that are often asked and seldom answered. Tax writers give little attention to such questions, although they are fundamental.... It seems probable that the general public might accept the following figures as fair. In a rural area where water supply, sewage disposal, and trash collection services must be supplied by the property owner and where—unless every house is strung along the public highway—the owner is responsible for constructing, maintaining, and snowplowing his own private road, and where some other urban services are nonexistent, a property tax rate of 1 percent on full value assessment would seem to be the maximum that should be permitted, with the rate perhaps increasing to 1½ or even 2 percent in an area with a full range of urban services.[5]

It is significant that residential property tax loads in 28 of the 50 largest metropolitan areas now exceed the 2 percent figure. (*See Appendix A, Table A-2.*) Those 28 SMSA's contain almost three-fourths of the population in the 50 largest metropolitan areas. Eleven of the metropolitan areas have effective rates over 2.5 percent—the Milwaukee area topping the list with a 3.5 percent effective rate, followed closely by Boston at 3.2 percent.

A somewhat similar—although diluted—picture appears when we look at statewide averages. Twenty-three States, with 56 percent of the population, had effective rates over 2 percent. (*See Appendix A, Table A-1.*) Massachusetts, Nebraska, New Hampshire, New Jersey and Wisconsin topped 3 percent.

Cash Flow Test

The median residential tax payment in 1970 amounted to 3.4 percent of the total money income of the average homeowner. (*See Table 15.*) If this national norm is considered a reasonable or fair figure, residential property tax loads in excess of 5 or 6 percent of household income could be deemed extraordinary and would justify relief action.

Using the 5 percent test, almost two-fifths of all households in the Nation (22 million) would have qualified in 1970 for rebates of about $4.3 billion in "excess" residential property tax payments. (*See Appendix A, Table A-12.*) If the 6 percent test is applied, then over 30 percent of all homeowners and renters (17 million) would have qualified for rebates of "excess" property tax payments in the amount of $2.9 billion. (*See Appendix A, Table A-13.*)

With increasing frequency, State policymakers are taking the position that residential tax overburden can best be measured in relation to household income. Even where the effective rate (in terms of value) can be kept within reasonable bounds, it is recognized that low-income households are affected adversely by the property tax.

The notion of what constitutes an extraordinary property tax burden for a low-income household varies among the States that have enacted circuit-breaker programs. (*See Chapter V.*) For example, Vermont relieves that portion of the property tax that exceeds 7 percent of income for all households with incomes of less than $4,286. The other States

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with circuit-breakers use variations of these numbers. In this sense they have made pragmatic decisions regarding the point at which a property tax becomes burdensome.

The Special Case of the Farmers

Most State legislators are under heavy pressure to provide property tax relief to farmers. This demand can be tied to the steady rise in taxes relative to farmers' total income from farm and nonfarm sources—from 2.4 percent in 1946 to 7.6 percent in 1971. (*See Table 19.*)

Significantly, the effective property tax rate in relation to property values has not shown a similar increase because rising farm land values have generally kept pace with property tax rates.[6]

Just as State policymakers have been concerned with the extraordinary tax burden on low-income homeowners and renters, they also have been acting to relieve farmers of property tax overburden in relation to their income flow. In part, this concern has been prompted by the need to keep owners of farmland from yielding to the inexorable pressures from urban developers. To accomplish this objective and to shield farmers from rising property tax rates, more than half of the States now provide for assessment of agricultural land according to its use for farming, rather than at the higher taxable levels to which such land is being pushed by urban developers. (*See Table 20.*)

Table 19

Taxes Levied on Farm Real Estate as a Percentage of Total Personal Income of Farm Population, United States, 1935-1971[1]

Year	Taxes as Percentage of Income	Year	Taxes as Percentage of Income
1935	4.6	1955	4.7
1936	5.0	1956	4.8
1937	4.1	1957	5.1
1938	5.0	1958	4.8
1939	5.0	1959	5.5
1940	4.8	1960	5.7
1941	3.7	1961	5.7
1942	2.6	1962	5.8
1943	2.2	1963	6.0
1944	2.3	1964	6.2
1945	2.5	1965	6.0
1946	2.4	1966	5.9
1947	2.6	1967	6.6
1948	2.5	1968[2]	7.0
1949	3.3	1969[2]	7.1
1950	3.3	1970[2]	7.5
1951	3.1	1971[2]	7.6
1952	3.3		
1953	3.8		
1954	4.2		

[1]Total personal income before deduction of farm real estate taxes includes net rent paid to nonfarm landlord.

[2]Revised.

Source: U.S. Department of Agriculture, Economic Research Service, *Farm Real Estate Taxes* (Washington, February 1973, RET-12), Table 7.

Tax Overburden Relative to Income—Seven Causal Factors

The following seven factors will affect the relationship between an individual's property tax bill and his income, and will cause his property tax burden to be relatively high.

1. *Low household income.*

2. *Community poverty*—Where property tax resources are meager and public needs are high, tax rates will be high (unless other revenue sources are made available).

3. *Heavy State emphasis on local funding of education, welfare, health and highway programs*—Junior colleges, welfare and social service administration, and various health programs are the responsibility of local governments in some States and of State governments in others. State support for local school systems ranges from 75.9 percent in Delaware to 10.7 percent in New Hampshire.

4. *Federal property tax deductibility*—This feature of the Internal Revenue Code is more beneficial to high-income taxpayers than to low-income individuals.

5. *High State-local dependence on property taxes relative to other taxes*—By way of contrast, Hawaii, with heavy State sales and income taxes, obtains only 17 percent of its State and local taxes from property taxation, while New Hampshire, with neither a broad-based sales nor a broad-based personal income tax, depends on property taxation for 62 percent of its tax revenue.

6. *Above-average preference for housing*—A family that prefers to put more of its resources into housing than into other amenities will have a higher property tax burden than one with the same income but a lesser taste for housing. (This is not to say that housing expenditures are strictly optional. Even low-income families must necessarily spend a minimum amount for housing.)

7. *Above-average community taste for public services*—Taxes are the means by which the members of

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Table 20

States With Differential Farmland Assessment Provisions, (January 1, 1973)

State	Preferential Assessment[1]	Deferred Taxation[1]	Contracts and Agreements[1]
Alaska		X	
Arkansas	X		
California			X
Colorado	X		
Connecticut		X[2]	
Delaware	X		
Florida	X		
Hawaii			X
Illinois		X[3]	
Indiana	X		
Iowa	X		
Kentucky		X	
Maine		X	
Maryland		X	
Massachusetts[4]			
Minnesota		X	
Nebraska[4]			
New Hampshire[5]		X	
New Jersey		X	
New Mexico	X		
New York		X[6]	
Oregon		X[7]	
Pennsylvania			X
Rhode Island		X	
South Dakota	X[8]		
Texas		X	
Utah		X	
Vermont			X[9]
Virginia		X[10]	
Washington			X

[1]*Preferential assessment:* Land to be assessed at value in agricultural use, with no penalty if it is later converted to another use. *Deferred taxation:* Additional taxes collected if use of land changes. *Contracts and agreements:* Local government and landowner agree on restrictions on land use in return for lower property taxes. Typically there are penalties for not complying with the agreement.

[2]Connecticut does not collect a deferred tax upon a change in land use but imposes a special real estate transfer tax on the total sales price at rates ranging from 1 to 10 percent, depending on the length of time the land was held subsequent to its classification as farm land (up to 10 years). The tax applies also if the use is changed by the original owner during the 10 year period.

[3]Applies only to counties with more than 200,000 population.

[4]A constitutional amendment was approved recently. The actual method of differential assessment has not yet been formulated by the legislature.

[5]New Hampshire's law is temporary, pending the report of the Open Space Land Study Commission.

[6]New York's deferred tax law is based chiefly on the establishment of agricultural districts, though land not in agricultural districts may be eligible for agricultural use assessment if the landowner enters into an agreement with the local government.

[7]Oregon collects deferred taxes on farmland which is not zoned for farm use. Land which is zoned for farm use gets preferential assessment.

[8]South Dakota limits preferential assessment for agricultural property to independent school districts.

[9]Vermont has provided for contracts between farmers and local government to fix the tax rate for land. Vermont also enables local governments to purchase rights and interests in farmland, with the farmer being taxed according to the value of the rights and interests left him.

[10]Virginia's law enables local governments to enact a deferred tax ordinance.

Source: U.S. Department of Agriculture, Rural Development Service. For further details, see Thomas F. Hady, "Differential Assessment of Farmland on the Rural-Urban Fringe," *American Journal of Agricultural Economics* (Vol. 52, No. 1, February 1970), p. 25. See also, John Kolesar and Jaye Scholl, *Misplaced Hopes, Misspent Millions, A Report on Farmland Assessments in New Jersey* (Princeton: The Center for Analysis of Public Services, 1972).

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a community purchase those goods and services that are best provided collectively. Just as the individual or family chooses between a large house and an expensive automobile, so does the collective community decide between private and public goods and services.

The first four factors are beyond the control of the individual and the community in which he lives. The fifth may be altered by the community if the State authorizes it to levy a non-property tax on a local basis in that area and such a tax is feasible. The sixth is shaped by the taxpayer, and the last, by the community.

Conclusion

Regardless of the assumptions made concerning the incidence of the general property tax, it is a regressive tax for the majority of American families.

Moreover, as a tax on housing, the residential property tax imposes truly extraordinary burdens on low-income groups, both elderly and non-elderly. This pattern holds true for the Nation as a whole and for each geographic region.

As to the overburden issue, it is becoming increasingly clear that policymakers will not permit the ad valorem tax to impose extraordinary burdens on the flow of cash income into the household. The next chapter will trace State efforts to shield low-income families from the exigencies of heavy property taxes.

FOOTNOTES

[1]Allen D. Manvel, "Trends in the Value of Real Estate and Land," in *Three Land Research Studies* (Washington: National Commission on Urban Problems, 1968), p. 1.

[2]Dick Netzer, *Economics of the Property Tax* (Washington: Brookings Institution, 1966), pp. 145-6.

[3]Dick Netzer, "Property Taxes," *Municipal Finance* 44:2 (November, 1971), p. 36.

[4]Mason Gaffney, "The Property Tax is a Progressive Tax," *1971 Proceedings of the National Tax Association* (Columbus, Ohio: 1972), p. 408.

[5]Mabel Walker, "Some Thorny Problems," *Tax Policy*, October-December, 1971.

[6]U.S. Department of Agriculture, Economic Research Service, *Farm Real Estate Taxes* (Washington, January, 1972, RET II).

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chapter V

relieving the residential property tax burden state and federal roles

Here is pity for human distress, and a sympathy for short-lived humanity.
Virgil[1]

This chapter answers the following questions: Is it reasonable to assume that the States will provide heavy duty protection to overburdened property taxpayers within the next few years? In order to answer this question, the following sections will trace and assess current State efforts to blunt the impact of the residential property tax. We shall also evaluate the indirect property tax relief embedded in the deductibility provisions of the Federal Internal Revenue Code.

In February 1973, Arkansas enacted that State's first comprehensive, State-financed property tax relief law. It followed the main precepts of the circuit-breaker approach, first developed and pioneered by Wisconsin in 1964. This enactment brought to 26, the number of States that finance some form of property tax relief (14 of these are circuit-breakers). In addition, 15 States require their local governments to provide relief, and six States authorize their localities to do so. The three remaining States and the District of Columbia early in 1973 were considering proposals to grant some form of relief.

State Property Tax Relief Programs

The traditional form of property tax relief has been through homestead exemptions in which the State excludes a portion of the assessed value of a single-family home from its total assessed value before applying the tax rate. In several States—for example, Florida, Georgia, Louisiana and Mississippi—up to $5,000 of assessed valuation is relieved. In a number of States additional amounts of assessed value are relieved for senior citizens and veterans.

Homestead exemptions typically go to all homeowners regardless of their income or the value of their property. Because the exemption is for the full amount even where fractional assessment is traditional, the resulting tax relief represents substantially more than the nominal amount provided in the statutes. Furthermore, within any particular State, the amount of tax relief usually varies with the location of the property, as assessment levels and tax rates usually differ from locality to locality.

The Circuit-Breaker Movement—Easing the Property Tax Overload

The property tax places an extraordinary burden on householders at the low end of the income scale, particularly elderly homeowners. This heavy burden mainly reflects the incidence of the tax rather than the effect of inequitable assessments.* Because the property tax will continue to be a major source of local revenue for the foreseeable future, policymakers have a special interest in making sure that it operates according to ability-to-pay—that the tax bears a reasonable relationship to the flow of cash income into the household. In recent years tax policy-

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makers have turned to a new form of property tax relief—the circuit-breaker.

Reconciling the property tax with the ability-to-pay principle. In 1964, the State of Wisconsin adopted a pioneer approach to relieve individuals of excessive tax burdens at State expense, thus safeguarding localities against new fiscal burdens.

The concept is similar in principle to the circuit-breaker that prevents electrical overloads. It protects the poor from tax overload without disrupting the flow of tax revenue from those able to pay. It is State-financed to maintain the fiscal solvency of local governments and State administered to promote the greatest efficiency, provide the widest base and maintain the dignity of the recipients. And the relief phases out as family income rises, to prevent an abrupt cut-off at an arbitrary point.

The idea of the circuit-breaker caught on in other States which, in turn, developed their own plans for shielding low-income and elderly property taxpayers. (*See Table 21.*) The principle of the circuit-breaker permits wide flexibility and adaptation to individual State tax systems and varying tax relief needs. Each State thus administers a unique program.

How it works.** In its classic form the circuit-breaker is administered by a State agency which rebates the relief directly to the claimant. To obtain circuit-breaker relief, the applicant files a statement as a supplement to his income tax return, listing all forms of money income, including social security and veterans' benefits and railroad retirement payments. After the excessive amount of property tax is determined, he is allowed a credit against his State income tax liability—if his income produces a sufficient tax liability—or he receives back in the mail a direct cash refund (the case with 98 percent of the recipients under the Wisconsin program, for example).

Although the circuit-breaker is part of the income tax process in Wisconsin, the applicant does not have to pay his property tax bill and then wait until income tax filing time to get his refund. As soon as the property tax bill comes, he may file the statement and receive the cash when he needs it. Because the program is administered by the State tax department and the refund sent through the mails, no more stigma attaches to it than when a Federal income taxpayer receives a tax reduction because he incurred extraordinary medical expenses. Local social welfare workers and county courthouse clerks are bypassed.

In California, Maine, Pennsylvania and West Virginia, the circuit-breaker takes the form of direct State cash rebates to all eligible property taxpayers. These States have income taxes, but they administer the circuit-breaker program separately, demonstrating that a State personal income tax is not a prerequisite to the adoption of the concept.

The Ohio "abatement approach" is another example of a separately administered program. Ohio reduces the tax bill directly. The claimant meets with the local property tax collector and they compute the amount of relief to which the claimant is entitled by law. The tax bill is then reduced by that amount and the property tax collector bills the State for reimbursement. In Oregon a claimant may choose either to file locally for a reduction of his property tax bill or to file a claim on his State income tax return. The State income tax approach has the advantage of confidentiality while the partial abatement approach has the merit of providing immediate relief.

Determining overload situations. The property tax takes a different bite out of the income of householders in different parts of the Nation. Because the average burden varies, the degree of excessiveness also varies. The Minnesota circuit-breaker comes into play when the property tax burden exceeds 6 percent of household income; Vermont's cuts in at 7 percent; several States are now considering a 4 or 5 percent ceiling.

To avoid providing excessive property tax relief to the little old lady "in the mansion on the hill," most States have written into the law income ceilings or limits on the amount of rebate or on the amount of eligible property tax liability. Not all limits are stated explicitly. They also have progressive rates to provide the most relief to the most needy cases. Income ceilings range downward from a $10,000 limit in California.

Who should be eligible? The flexibility of the circuit-breaker extends to the type of recipients as well as the amount of relief. Except for Oregon, States using the procedure grant relief only to those above the age of 62 or 65.* But death of the breadwinner, physical disability, or severe unemployment would make the property tax just as devastating to a young family as to the elderly.

Colorado, Illinois, Maine, Minnesota, Vermont, West Virginia and Wisconsin at present grant circuit-breaker relief to renters as well as homeowners on the theory that most landlords pass on some of the

*See Chapter IV for consideration of the significance of alternative incidence theories, especially Table 13. See also Tables 15-18, for data that do not take incidence into account.

**A detailed discussion of the political background and the operation of circuit-breakers—particularly in Wisconsin, Minnesota, Vermont and Maine—appears in Appendix E. The circuit-breaker concept is also analyzed in Dennis Wittman's article, "Property Tax Relief: A Viable Adjunct to Housing Policy?" in *Urban Law Annual, 1972* (St. Louis: Washington University School of Law).

*New Mexico also imposes no age limit, but its program is not tied directly to property tax payments.

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TABLE 21 — FEATURES OF STATE FINANCED "CIRCUIT-BREAKER" PROGRAMS: PROPERTY TAX RELIEF FOR LOW-INCOME FAMILIES

State	Description of beneficiaries	Income ceiling	Percent of annual rent	Tax relief formula	Form of abatement	Date of adoption	Statutory citation
Wisconsin	Homeowners & renters 62 and older[1]	$5,000	25%	See footnote 1. Limitation on amount of property tax liability considered for relief is $500.	State income tax credit or rebate	1964 rev. 1971	Chap. 71, Sec. 71.09(7)
Minnesota	Homeowners & renters 65 and older	$5,000	20%	Percent of tax relieved declines as household income increases. Limitation on amount of property tax liability considered for relief is $800.	State income tax credit or rebate (This aid is in addition to a general State-financed property tax relief that approximates 35% of the homeowner's tax bill)	1967 rev. 1971	Chap. 290, Sec. 290.0601 *et seq.*
California	Homeowners age 62 & older (Separate program for renters)	$10,000 (net) $20,000 (gross)	—	Relief ranges from 96% of tax payment on first $7,500 of value if household income is less than $1,400 to 4% of tax payment if net household income is $10,000.	State rebate only	1967 rev. 1971	Revenue & Taxation Code, Sec. 19501 *et seq.*
Vermont	Homeowners & renters age 65 & older	Not explicit Implicit unit is $4,286	30%	Relief limited to that part of tax payment in excess of 7% of household income times a local rate factor that varies by tax rate of local community[2]. Limitation on amount of property tax liability considered for relief is $300.	State income tax credit or rebate	1969 rev. 1971	Title 32, Sec. 5961 *et seq.*
Kansas	Homeowners age 65 & older; no relief for renters	$6,000	—	Similar to Wisconsin but with different percentages. Limitation on amount of property tax liability considered for relief is $330.	State income tax credit or rebate	1970 rev. 1972	Sec. 79-4501 *et seq.*
Oregon	Homeowners only — no age restraint	None	—	Relief based on amount by which property taxes exceed percentage of household income. The % ranges from 3% on income up to $1,500 (max. relief $400) to 7% for income in excess of $8,000 (max. relief $100)[3]	Taxpayers initial tax bill is reduced by the amount of relief granted by the Dept. of Revenue and the Dept. pays to the counties the amount of relief granted, or alternatively taxpayers may claim state income tax credit.	1971	Ch. 747 (H.B. 1639)

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State	Description of beneficiaries	Income ceiling	Percent of annual rent	Tax relief formula	Form of abatement and estimated per capita cost	Date of adoption	Statutory citation
Colorado	Homeowners & renters age 65 & older	$2,400 single $3,700 married (In addition, net worth during year must be less than $20,000).	10%	Relief limited to 50% of the tax payment and cannot exceed $250. The credit or refund is reduced by 10% of income over $500 for individuals & 10% of income over $1,800 for husband and wife.	State income tax credit or rebate	1971 rev. 1972	Chap. 138 Secs. 138 1-20 & 21
Maine	Homeowners & renters age 65 & older for males and 62 & older for females (At least 35% of household income must be attributable to claimant)	$4,000 (In addition, net assets must not exceed $30,000)	20%	Relief equal to 7% of the difference between household income and $4,000. Limited to the total property tax levied.	State rebate only	1971	Title 36, Chap. 901, Secs. 6101-6120
Pennsylvania	Homeowners: age 65 & over; Widows age 50 & over; permanently disabled persons	$7,500	–	Relief ranges from 100% of tax (max. $200) when household income is less than $1,000 to 10% where such income is between $6,000 and $7,500.	State rebate only. Maximum cost to state cannot exceed $60 million. Excess will be prorated.	1971	Act No. 3 H.B. 192
Ohio	Homeowners, age 65 & older	$8,000	–	Reduction of taxable value by $5,000 or 70% (whichever is less) for incomes below $2,000 to 40% or $2,000 for incomes above $6,000.	Reduction of tax bill. Cost of exemption paid by State to each taxing district.	1971 rev. 1972	Sec. 323.151 *et seq.*
West Virginia	Homeowners & renters age 65 & older	$5,000	12%	Relief based on ratio of property tax to household income. Property taxes exceeding a given percent of household income is remitted. These percents range from 0.5% to 4.5%. Limitation on amount of property tax liability considered for relief is $125.	Direct state payment	1972	Art. 25 Sec. 2,3
Arkansas	Homeowners age 65 & older; no relief for renters	$5,500	–	Relief based on amount by which property tax exceeds varying percents of income, ranging from 1% on incomes below $1,500 to 5% on incomes above $4,500.	State income tax credit or rebate	1973	H.B. 10 (1973)

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State	Description of beneficiaries	Income ceiling	Percent of annual rent	Tax relief formula	Form of abatement and estimated per capita cost	Date of adoption	Statutory citation
Illinois	Homeowners and Renters, age 65 & older or disabled	$10,000 Implicit	25%	Relief based on amount by which property tax (or rent constituting property tax) exceeds 6 percent of household income for that year on the amount of such income between zero and $3,000 plus 7% on that amount in excess of $3,000. Relief limit is $500 less 5% of household income.	Direct rebate (effective 1973)	1972[4]	*Laws of 1972*, P.A. 77-2059

New Mexico Applicable to tax years beginning on or after January 1, 1972, a resident individual filing a return and not claimed as a dependent is entitled to a credit *for state and local taxes* to which he has been subject during the tax year for which the return is filed. Taxpayers filing separately for a tax year in which they could have filed jointly may each claim only one-half of the credit allowable on the joint return. The credit may not be claimed by residents who were inmates of a public institution for more than six months of the tax year or by persons not physically present in the state for at least six months during the tax year. If the credit exceeds the taxpayer's income tax liability the excess will be refunded. The amount of the credit is as follows and is deductible from the taxpayer's income tax liability, if any (Ch. 20, Laws 1972; Sec. 72-15A-11.1. Modified Gross Income means all income, undiminished by losses, and from whatever source derived).

Modified gross income		Total Exemptions for Federal Purposes					
Over	Not over	1	2	3	4	5	6 or More
.....	$ 500	$20	$21	$22	$26	$27	$ 41
$ 500	999	25	26	28	34	36	56
1,000	1,499	26	32	37	48	52	85
1,500	1,999	13	28	38	55	63	107
2,000	2,499	....	15	32	56	68	123
2,500	2,999	....	....	19	49	67	131
3,000	3,499	....	....	....	37	60	133
3,500	3,999	....	....	....	18	48	128
4,000	4,499	....	....	....	....	30	115
4,500	4,999	....	....	....	....	6	96
5,000	5,499	....	....	....	....	....	71
5,500	5,999	....	....	....	....	....	39

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State	Description of beneficiaries	Income ceiling	Percent of annual rent	Tax relief formula	Form of abatement and estimated per capita cost	Date of adoption	Statutory citation
Exhibit: Other State Financed Property Tax Relief Programs with Income Criteria							
Alaska	Homeowners, age 65 & older	$10,000	–	Total exemption	No tax liability. Cost of exemption paid by State to each taxing district.	1972	Sec. 29.53.020e
Michigan	Homeowners, age 65 & older	$6,000	–	Exemption of $2,500 State equalized value	Reduction of tax bill. Cost of exemption paid by State to each taxing district.	1965 rev. 1970	Sec. 211.7c
Nebraska	Homeowners, age 65 & older	Single $2,800 Married $3,550 Married and spouse over 65 $4,300	–	Reduction of tax by 25% (Max. $125) in 1973 and by 50% (max. $250) in 1974	Reduction of tax bill. Cost of reduction paid by State to each taxing district.	1972	Sec. 77-202.13
Tennessee	Homeowners, age 65 & older	$4,800	–	Equivalent to reduction of assessment by $5,000	State rebate to taxpayer.	1972	H.B. 1714 (Laws 1972)
New Jersey	Homeowners age 65 & older	$5,000 (exclusive of social security benefits)	–	Deduction from tax bill of $160 or amount of tax liability whichever is less.	Reduction of tax bill. One half of cost of deduction reimbursed to municipality by the State	1953 (local) 1971 (State-local)	Ch. 172 (Laws 1968 Sec. 54.4-8.40 - 54.4-8.51 Ch. 20 (Laws 1971)
Iowa	Homeowners: 65 & older or totally disabled	$4,000	–	Deduction from tax bill of $125 or amount of tax liability whichever is less.	Reduction of tax bill. Cost of deduction paid by State to each taxing district.	1967 rev. 1971	Ch. 356 (Laws 1967) Ch. 1208 (Laws 1970) H.F. 654 (Laws 1971)
Connecticut	Homeowners age 65 & older	$3,000 single $5,000 married	–	Exemption of $1,000 assessed value. (Also a tax freeze as of the year of qualification)	Reduction of tax bill. Cost of exemption paid by State to each taxing district.	1965	Sec. 12-129b
Wyoming	Homeowners age 65 & older	$2,000 single $2,500 married	–	Exemption of $1,000 assessed value.	Reduction of tax bill. Cost of exemption paid by State to each taxing district.	1973	H.B. Act. 109 (1973)

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Note: The key features of a circuit-breaker are that the property tax relief program is state-financed and that the amount of benefit depends on the recipient's income and is phased out gradually as income increases.

[1]

Household income	Tax burden excessive when exceeding following percents of household income	Percent of excessive burden relieved
$ 0 – $1,000	0%	75%
1,000 – 1,500	5%	60%
1,500 – 2,000	10%	60%
2,000 – 5,000	14%	60%

The income constraint column indicates that the real estate taxes become an excessive burden in terms of household income when taxes or 25% of rent in lieu of taxes is in excess of the stated percents. Sixty percent of the amount in excess of these stated percentages is relieved if household income exceeds $1,000. Program coverage is extended at age 60 or older to those totally and permanently disabled.

[2]The Commissioner shall annually prepare and make available the local rate factors by arraying all municipalities according to their effective tax rate and dividing the population of the State into quintiles from such array with those having the lowest effective tax rates being in the first quintile. The local rate factors shall be as follows: first quintile, 1.0; second quintile, 1.1; third quintile, 1.2; fourth quintile, 1.3; fifth quintile, 1.4. The amount of property taxes or rent constituting property taxes used in computing the credit is limited to $300 per taxable year.

[3]Persons born before March, 1891, with an income not over $3,000 are entitled to relief of the total amount of property taxes on their homestead up to a maximum of $400:

On any amount of household income exceeding	But not exceeding	Fixed percentage	Maximum relief
$ 0	$1,500	3%	$400
1,500	3,000	4	400
3,000	4,500	5	300
4,500	6,000	6	300
6,000	8,000	7	200
8,000 and over	–	7	100

[4]Effective January 1, 1973.

Source: ACIR staff compilation from Commerce Clearing House data.

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property tax burden to their tenants. Vermont assumes that 30 percent of the rental payment goes for property taxes; Wisconsin and Illinois assume 25 percent; Maine and Minnesota, 20 percent; West Virginia, 12 percent; and Colorado, 10 percent. *(See p. 60, ff, for a discussion of renter relief problems.)*

Do savings held in retirement years and ownership of other assets (ranging from the home to common stock) constitute ability to pay property taxes? Under the cash income approach, income from sources such as interest and dividends are part of ability to pay. But does the *ownership* constitute additional ability? In a conceptual sense, asset holdings represent ability to pay taxes, but a host of psychological and practical problems arise with a wealth criterion in a property tax relief program. People tend to dissipate their assets prematurely to become eligible—an unsatisfactory public policy.

Conceptually a superior approach is to treat the annuity value of total current wealth as ability to pay. This would require distributing the value of the assets, together with interest, over the recipient's remaining years of life. This approach would necessitate, however, an official estimation of both the interest rate and the recipient's lifespan. Also, because the home is one of the assets, it is difficult for the homeowner to save his house when the asset test insists that he should use the value of his house to pay the tax. If the house itself is excluded from the total of assets, the test discriminates against renters. To restore equity between homeowners and renters would then require that all persons be allowed to exclude from available assets a fixed amount, approximately equal to the average value of a home typically owned by elderly people.

Therefore, as a compromise between conceptual equity and realistic simplicity, the best criterion for appropriate property tax relief is current total cash income.

The intergovernmental virtue. One of the main advantages of the circuit-breaker relief program is that it is State-financed. The more traditional, locally-financed "homestead exemption" approach often requires local governments and school districts to raise tax rates to compensate for the reduction in the local property tax base. In communities where the poor have clustered together, the exemption approach can aggravate tax inequities and impair the community's fiscal position. In sharp contrast, State-financed property tax relief tends to reduce intergovernmental fiscal disparities between high- and low-income communities.[2]

ACIR went on record favoring State reimbursement for property tax relief as early as 1963. In its A-17 report *(The Role of the States in Strengthening the Property Tax)*, ACIR recommended that: in the instance of mandatory tax exemptions extended to individuals for such purposes as personal welfare and expressions of public esteem, the States should reimburse the local communities for the amounts of the tax "loss".

How much does it cost? Compared to other types of property tax relief, the circuit-breaker is relatively inexpensive. The 14 States that have enacted circuit-breaker programs now spend an estimated $2.24 per capita, or $123 per recipient. The cost of the other 12 State-financed programs of relief for the elderly is an estimated $2.34 per capita. An ACIR survey reveals the following data as of March 1973:

Type of Program	Number of States	Millions	Estimated Cost Per Capita	Per Claimant
State financed:	14	$180	$2.24	$123
Circuit-breaker	12	110	2.34	110
Other				
Locally financed:	15	70	1.94	133
State mandated	6	75	1.84	211
Local option	47	$435	$2.14	$125
Total				

Possible objections. Some complain that the circuit-breaker does not cure poverty, the real culprit. The circuit-breaker ensures, however, that a bad situation is not made worse by imposition of extraordinary property tax burdens on the poor.

Others complain that the circuit-breaker approach makes welfare operators out of State tax collectors. State experience indicates that this approach may represent the most efficient and dignified way to administer a local property tax relief program.

Some claim that State-financed property tax relief might encourage local officials to adopt reckless spending policies. The majority of citizens continue to pay property taxes without relief, and can be expected to exert continuing restraint on local budget expansion.

Those who wish to recover the cost of property tax relief after the death of the homeowner object that the circuit-breaker provides unwarranted aid to the children who will inherit the property. Yet, where the option of tax deferral has been provided—as in Oregon—eligible persons did not choose to make use of the option.

Circuit-breaker tax relief has been criticized on the grounds that it enables a homeowner to hold his property off the market thereby working against the highest and best use of land. Proponents of the circuit-breaker assert that this objection probably over-

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states the effect of a tax rebate of a few hundred dollars on a person's decision either to sell or to hold the homestead.

Summary. The circuit-breaker has evolved, over the last few years, into a definite form of legislation –but only two characteristics are essential: that it be State-financed property tax relief; and that the amount of relief phase out as household income increases. The circuit-breaker approach turns a tax that is particularly burdensome at the low end of the income scale into an essentially proportional levy. It provides significant local property tax relief, at modest State cost, to those who really need it without disrupting the regular property tax system. This distinguishes it from the more common kind of "homestead exemption" which reduces the official tax base

Table 22

Property Tax Relief for the Elderly—A Growing State Concern
(Summary)

Type of Relief Program		
State Financed (26 States)	**State Mandated—Locally Financed (15 States)**	**State Authorized—Locally Financed (6 States)**
	Adopted prior to 1971	
Louisiana[1]	Oklahoma[1]	Rhode I. (A-1960, L-1972)
Mississippi[1]	Indiana (A-1957, L-1971)	N.Y. (A-1966, L-1972)
New Jersey (A-1953, L-1972)	Mass. (A-1963, L-1971)	Utah (A-1967, L-1969)
Wisconsin* (A-1964, L-1971)	Georgia (A-1964, L-1972)	N.H. (A-1969)
Conn. (A-1965)	Delaware (A-1965, L-1967)	
Michigan (A-1965, L-1970)	Maryland (A-1967, L-1969)	
Calif.* (A-1967, L-1971)	Hawaii (A-1969, L-1972)	
Iowa (A-1967, L-1971)	Idaho (A-1969, L-1971)	
Minn.* (A-1967, L-1971)	Montana (A-1969, L-1971)	
Vermont* (A-1969, L-1971)	N. Dakota (A-1969)	
Kansas* (A-1970, L-1972)		
	Adopted in 1971	
Colorado* (L-1972)	Alabama	Virginia (L-1972)
Florida	Kentucky	
Maine*	North Carolina	
Ohio* (L-1972)	Washington (L-1972)	
Oregon*		
Pennsylvania*		
South Carolina		
	Adopted in 1972	
Alaska	South Dakota	Texas
Illinois*		
Nebraska		
New Mexico*		
Tennessee		
West Virginia*		
	Adopted in 1973	
Arkansas*	—	—
Wyoming	—	—

NOTE—States listed according to date of adoption (A). The date of most recent liberalization is also noted (L). Proposals for the establishment of a State financed program are now under active consideration in the four jurisdictions that have no tax relief policy—Arizona, Missouri, Nevada, and the District of Columbia. In approximately 15 other States, proposals for liberalization are under active consideration.

* "Circuit-breaker"—tax relief phases out as household income rises.

[1]Elderly receive tax relief under general homestead tax relief provisions. The State reimburses local governments in Louisiana and Mississippi.

Updated to March 1973 by ACIR Staff.

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Table 23

Property Tax Relief for the Elderly
A Growing State Concern (as of March 1, 1973)

State	Financed by	Date of Adoption	Description of Beneficiaries (estimated number of claimants)	Income Ceiling	Tax Relief Formula (or general remarks)	Form of Relief (estimated per capita cost)
Alabama	State (exemption applies to state taxes only)	1971	Homeowners 65 & over (N.A.)	None	The $2,000 general exemption of assessed value is increased to $5,000 for homeowners, 65 and over. for State ad valorem taxes only.	Reduction in tax bill (N.A.)
Alaska	State	1972	Homeowners 65 & over (1,000)	$10,000	Total exemption.	No tax liability ($1.54)
Arizona					Program under active legislative consideration	
Arkansas	State (circuit-breaker)	1973	Homeowners 65 & over (90,000)	$5,500	Relief ranges from maximum of $400 for income below $1,500 to $175 for income to $5,500. on graduated scale.	State income tax credit or rebate ($1.39)
California	State (circuit-breaker)	1967 1972 rev.	Homeowners 62 & over (292,999) All renters	$10,000 net $20,000 gross	Relief ranges from 96% of tax payment on first $7,500 of value if net household income is less than $1,400 to 4% of tax payment if net household income is $10,000 (in addition to homestead exemption of $1750).	State rebate only ($2.93)
	State	1972	(N.A.)	None	Relief ranges from $25 if adjusted gross income is less than $5,000 to $45 on income of $8,000 and over.	State income tax credit or rebate (N.A.)
Colorado	State (circuit-breaker)	1971 1972 rev.	Homeowners and renters age 65 and over (11,000)	$2,400 single $3,700 married (Net worth less than $20,000)	Relief limited to 50% of the tax payment and cannot exceed $250. The credit or refund is reduced by 10% of income over $500 for individuals and 10% of income over $1,800 for husband and wife. (10% or rent= tax equivalent)	State income tax credit or rebate ($.32)
Connecticut	State	1965	Homeowners 65 & over (N.A.)	$3,000 single $5,000 married	Exemption of $1,000 assessed value [also a tax freeze as of year of qualification]	Reduction in tax bill ($2.27)
Delaware	Localities (mandated)	1965 1967 rev.	Homeowners 65 & over (N.A.)	$3,000	Exemption of $5,000 assessed value from State or County property taxes.	Reduction in tax bill (N.A.)
	Localities (optional)	1969 1970 rev.	Homeowners 65 & over (N.A.)	$3,000	Exemption of $5,000 assessed value from municipal property tax.	Reduction in tax bill (N.A.)

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State	Financed by	Date of Adoption	Description of Beneficiaries (estimated number of claimants)	Income Ceiling	Tax Relief Formula (or general remarks)	Form of Relief (estimated per capita cost)
Florida	State	1971	Homeowners 65 & over (362,000)	None	The general homestead exemption of $5,000 for all Homeowners is increased to $10,000 for homeowners 65 and over for taxes levied by district school boards for current operating purposes.	Reduction in tax bill ($1.47)
Georgia	Localities (mandated)	1964 1972 rev.	Homeowners 65 & over (100,000)	$4,000	Exemption of $4,000 assessed value from State and County property taxes.	Reduction in tax bill ($1.48)
	Localities (mandated)	1972	Homeowners 62 & over (N.A.)	$6,000	Exemption of ad valorem taxes for educational purposes levied on behalf of school districts.	Reduction in tax bill (N.A.)
Hawaii	Localities (mandated)	1969 1972 rev.	Homeowners 60 & over (180,000)	None	Exemption of $16,000 of assessed value for homeowners age 60 to 69. Exemption of $20,000 of assessed value for homeowners age 70 or more.	Reduction in tax bill ($4.40)
Idaho	Localities (mandated)	1969 1971 rev.	Homeowners 65 & over (N.A.)	$4,800 (value of property not to exceed $15,000)	Elderly homeowners are exempt from property tax up to $75.	Reduction in tax bill ($.72)
Illinois	State (circuit-breaker)	1972	Homeowners and renters age 65 and older or disabled (290,000)	$10,000 implicit	Relief based on amount by which property tax (or rent constituting property tax) exceeds 6 percent of household income for that year on the amount of such income between zero and $3,000 plus 7% on that amount in excess of $3,000. Relief limit is $500 less 5% of household income. (25% of rent = tax equivalent)	Direct rebate ($2.58)
	Localities (mandated)	1971	Homeowners 65 & over (N.A.)	None	Maximum reduction of $1500 from assessed value.	Reduction in tax bill (N.A.)
Indiana	Localities (mandated)	1957 1971 rev.	Homeowners 65 & over (80,000)	$6,000 (realty value not in excess of $6,500)	Exemption of $1,000 assessed value.	Reduction in tax bill ($1.59)
Iowa	State	1967 1971 rev.	Homeowners 65 & over or totally disabled (N.A.)	$4,000	Deduction from tax bill of $125 or amount of tax liability whichever is less	Reduction in tax bill ($2.71)

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State	Financed by	Date of Adoption	Description of Beneficiaries (estimated number of claimants)	Income Ceiling	Tax Relief Formula (or general remarks)	Form of Relief (estimated per capita cost)
Kansas	State (circuit-breaker)	1970 1972 rev.	Homeowners 65 & over (N.A.)	$6,000	Similar to Wisconsin but with different percentages. Limitation on amount of property tax liability considered for relief is $330.	State income tax credit or rebate ($2.88)
Kentucky	Localities (mandated)	1971	Homeowners 65 & over (125,000)	None	Exemption of $6,500 assessed value, except for assessment for special benefits.	Reduction in tax bill ($3.12)
Louisiana	State finances a general homestead exemption of $2,000 for all homeowners with a reimbursement to local government.					
Maine	State (circuit-breaker)	1971	Homeowners and renters age 65 and older for males, 62 and older for females (16,000)	$4,000 (in addition net assets must not exceed $30,000)	Relief equal to 7% of the difference between household income and $4,000. Limited to the total property tax levied. (20% of rent = tax equivalent) (at least 35% of household income must be attributable to claimant)	State rebate only ($1.60)
Maryland	Localities (mandated)	1967 1969 rev.	Homeowners 65 & over (61,000)	$5,000	Credit of 50% of assessed value or $4,000, whichever is less, multiplied by the local property tax rate.	Reduction in tax bill ($1.81)
	Localities (optional)	1968 1972 rev.	Homeowners 65 & over (Females 62 & over in Cecil Co.)	Varies by County	Relief varies from an increase in the credit provided by the State mandated law to a lessening or modification of conditions of eligibility for such credit.	Reduction in tax bill (N.A.)
Massachusetts	Localities (mandated)	1963 1971 rev.	Homeowners 70 & over (74,000)	$6,000 single $7,000 married (maximum estate: $40,000 single $45,000 married)	Exemption of $4,000 assessed value or the sum of $350, whichever would result in an abatement of the greater amount of taxes due.	Reduction in tax bill ($5.18)
Michigan	State	1965 1970 rev.	Homeowners 65 & over (220,000)	$6,000	Exemption of $2,500 State equalized value	Reduction in tax bill ($3.06)

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State	Financed by	Date of Adoption	Description of Beneficiaries (estimated number of claimants)	Income Ceiling	Tax Relief Formula (or general remarks)	Form of Relief (estimated per capita cost)
Minnesota	State (circuit-breaker)	1967 1971 rev.	Homeowners and renters 65 & over (95,000)	$5,000	A percentage of tax is given back as a credit, percentage declines as income increases. Not more than $800 tax considered. (20% of rent = tax equivalent.)	State income tax credit or rebate ($2.38)
Missouri	*(A constitutional amendment was approved in November 1972 to allow property tax relief by means of either a homestead exemption or a tax credit, to require that the State must reimburse the local government for any loss of revenue, and to permit such relief plans to include renters.)*					
Mississippi	State finances a partial homestead exemption of $5,000 for all homeowners with a reimbursement to local governments.					
Montana	Localities (mandated)	1969 1971 rev.	Retired homeowners (N.A.)	$4,000 single $5,200 married	50% reduction.	Reduction of tax bill ($1.39)
Nebraska	State	1972	Homeowners 65 & over (60,000)	$2,800 single $3,550 married $4,300 married and spouse over 65	Reduction of tax by 25% (max. $125) in 1973 and by 50% (max. $250) in 1974.	Reduction of tax bill ($4.41)
Nevada	New Program					
New Hampshire	Localities (optional)	1969	Homeowners 70 & over (9,300)	$4,000 single $5,000 married ($25,000 asset test)	Equalized valuation reduced by $5,000 times the local assessment ratio.	Reduction of tax bill ($1.99)
New Jersey	State 50% Localities 50% (mandated)	1953 1972 rev.	Homeowners 65 & over (163,000)	$5,000 (excluding social security)	Reduction of tax bill by $160, but not more than amount of tax	Reduction of tax bill (One-half reimbursed by State) ($3.50)
New Mexico	State (circuit-breaker)	1972	All persons (70,000)	$6,000	Person receives credit based on all State-local taxes which he is presumed to have paid. Credit varies depending on income and number of personal	State income tax credit or rebate ($1.88)

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State	Financed by	Date of Adoption	Description of Beneficiaries (estimated number of claimants)	Income Ceiling	Tax Relief Formula (or general remarks)	Form of Relief (estimated per capita cost)
New York	Localities (optional)	1972	Renters in rent controlled housing, 62 & over (N.A.)	$3,000 (can be raised to $5,000 by locality)	Not to exceed amount by which maximum rent exceeds one-third of combined household income.	Reduction of maximum rent (N.A.)
	Localities (optional)	1966 1972 rev.	Homeowners 65 & over (82,000)	$3,000 (can be raised to $6,000 by locality)	Assessed valuation reduced by 50%.	Reduction of tax bill ($1.14)
North Carolina	Localities (mandated)	1971	Homeowners 65 & over (retired) (19,000)	$3,500	Assessed valuation reduced by $5,000.	Reduction of tax bill ($.16)
North Dakota	Localities (mandated)	1969	Homeowners 65 & over (5,000)	$3,000	Assessed valuation reduced by $1,000 or 50%, whichever is less.	Reduction in tax bill ($.47)
Ohio	State (circuit-breaker)	1971 1972 rev.	Homeowners 65 & over (N.A.)	$8,000	Benefits range from reduction of 70% or $5,000 assessed value (whichever is less) for incomes below $2,000 to 40% or $2,000 for incomes above $6,000.	Reduction of tax bill ($2.78)
Oklahoma	Homestead exemption of $1,000 of assessed value for all homeowners is mandated by State. No reimbursement to local government.					
Oregon	State (circuit-breaker)	1971	All home-owners (100,000)	None	Relief based on amount by which property taxes exceed percentage of income ranging from 3% on income below $1,500 (max. relief $400) to 7% for income above $8,000 (max. $100).	Reduction of tax bill (re-imbursed) or tax credit ($7.80)
Pennsyl-vania	State (circuit-breaker)	1971	Homeowners 65 & over; widows 50 & over; totally disabled (264,000)	$7,500	100% of tax for income less than $1,000 (max. rebate $200). 10% of tax for income greater than $6,000.	State rebate ($2.30)

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State	Financed by	Date of Adoption	Description of Beneficiaries (estimated number of claimants)	Income ceiling	Tax Relief Formula (or general remarks)	Form of Relief (estimated per capita cost)
Rhode Island	Localities (optional)	1960 1972 rev.	Homeowners 65 & over (19,000)	$4,000 ($5,000 in one locality)	Various formulas; most reduce assessed valuation by $1,000. [Also a tax freeze.]	Reduction in tax bill ($1.02)
South Carolina	State	1971	Homeowners 65 & over (78,000)	None	Not related to income. Assessed valuation reduced by $5,000.	Reduction in tax bill ($1.31)
South Dakota	Localities (mandated)	1972	Homeowners 65 & over (N.A.)	$4,000 married $2,400 single	Assessed valuation reduced by $1,000.	Reduction in tax bill ($5.15)
Tennessee	State	1972	Homeowners 65 & over (81,000)	$4,800	Equivalent to reduction of assessment by $5,000.	State rebate to taxpayer ($.74)
Texas	Localities (optional)	1972	Homeowners 65 & over (N.A.)	None	Assessment reduced by $3,000.	Reduction in tax bill ($4.29) ($4.29)
Utah	Localities (optional)	1967 1969 rev.	Indigent Homeowners (Presumed to be 65 & over) (N.A.)	$2,500 single $3,000 married	Taxes may be reduced by $50 or 50%, whichever is less.	Reduction in tax bill ($.16)
Vermont	State (circuit-breaker)	1969 1971 rev.	Homeowners and renters 65 & over (3,600)	$4,286 implicit	Taxes in excess of 7% of income, adjusted by local rate factor. Not more than $300 tax considered for relief. (30% of rent = tax equivalent)	State income tax credit or rebate ($.88)
Virginia	Localities (optional)	1971 1972 rev.	Homeowners 65 & over (N.A.)	$7,500 ($20,000 asset test)	At discretion of locality.	Reduction in tax bill ($.13)

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State	Financed by	Date of Adoption	Description of beneficiaries (estimated number of claimants)	Income ceiling	Tax Relief Formula (or general remarks)	Form of Relief (estimated per capita cost)
Washington	Localities (mandated)	1971 1972 rev.	Homeowners 62 & over, or disabled (72,000)	$6,000	Income — Percentage of excess levies abated $0 - $4,000: 100% $4,000 - $6,000: 50% (minimum relief of $50 for income below $4,000)	Reduction in tax bill ($1.81)
West Virginia	State (circuit-breaker)	1972	Homeowners and renters 65 & over (N.A.)	$5,000	Relief based on ratio of property tax to household income. Taxes exceeding a given percent of income is remitted. These percents range from .5% to 4.5% not more than $125 tax considered for relief. (12% of rent = tax equivalent.)	Direct State payment ($.84)
Wisconsin	State (circuit-breaker)	1964 1971 rev.	Homeowners and renters 62 & over (79,000)	$5,000	Income — Tax burden excessive when exceeding following percents of household income (cumulative rates) $0 - $1,000: 0 $1,000 - $1,500: 5% $1,5000 - $2,000: 10% $2,000 - $5,000: 14% 75 60 60 60 % of Excessive burden relieved Not more than $500 tax considered for relief. (25% of rent = tax equivalent)	State income tax credit or rebate ($2.21)
Wyoming	State	1973	Homeowners 65 & over (8,000)	$2,000 single $2,500 married	Exemption of $1,000 assessed value.	Reduction in tax bill ($1.16)
District of Columbia					Plan under active Congressional consideration	

N.A.—Data not available
Circuit-breaker—A state financed program of property tax relief in which the amount of tax relief phases out as household income rises.
"Rev." indicates the year of the most recent liberalization of the above property tax relief program.
Source: ACIR Staff compilation based on Commerce Clearing House, *State Tax Reporter*,State of Washington, Department of Revenue, *Property Tax Relief in Washington*, October, 1972, and telephone and letter survey of the various States.

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considerably, provides a benefit to high-income homeowners as well as others and affords no relief to householders living in rented homes. The circuit-breaker can be administered by the State separately or as part of its income tax, or it can be administered by local government as an abatement of property tax which the State reimburses.

Other Forms of Property Tax Relief for the Elderly

Although increasingly the most popular form, the circuit-breaker has not been the only approach to property tax relief for the low-income and the elderly, even in recent years. Twelve States have adopted other types of State-financed plans which provide some property tax relief to the elderly, six of them enacted since 1970 and three of them liberalized since then. This group of 12 States includes Louisiana and Mississippi, neither of which has a special program for the low-income or the elderly, but both of which provide State financing for a substantial homestead exemption and have very low property tax rates.

While these plans have one great virtue—they are State-financed—they lack the other essential feature—they do not phase out as household income rises.

In addition, 15 States now mandate a partial abatement of the property tax, but do not reimburse the local jurisdictions for the revenue foregone. Six additional States have granted their local governments the option of providing property tax relief to their senior citizens within carefully constricted bounds.

These plans can be faulted on two major counts: they are financed locally rather than by the State; and, in most cases, relief is cut off abruptly at an arbitrary point, rather than phasing out as income rises.

Altogether, including the 14 circuit-breaker States, some form of property tax relief is available to the elderly in 47 States. *(See Tables 22 and 23.)*

Evaluation of Current State Efforts to Provide Property Tax Relief to the Elderly

Because of the truly remarkable upsurge in State concern for property tax relief for the elderly since 1970, approximately 3.4 million elderly households residing in 47 States will receive an estimated $435 million in property tax relief rebates and abatements in 1973.

The Box below measures the actual State response

Evaluation Criteria	A Hypothetical "Strong State Response" Test	The Actual State Response as of March 1, 1973[a]
Type of State Involvement	**50** States would underwrite circuit-breaker[b] protection designed to relieve *all elderly homeowners and renters* of that part of their residential property tax in excess of 5 percent of household income. In the case of renters, an amount equal to 25 percent of rent payment is assumed to be property tax.	**47** States now provide some form of tax relief under one of four arrangements: 14 States finance circuit-breakers. 12 States finance "other" tax relief plans. 15 States mandate locally financed tax relief. 6 States authorize locally financed tax relief.
Cost of Protecting Elderly *Homeowners*	An estimated *4.1* million elderly households would receive about $1.1 billion in rebates or abatements in 1973.	An estimated *3.2 million* elderly households in 47 States will receive an estimated *$410* million in rebates or abatements in 1973.
Cost of Protecting Elderly *Renters*	An estimated *3.9* million elderly households would receive about $400 million in rebates or abatements in 1973.	An estimated *200,000* elderly households in 7 States will receive about *$25* million in rebates or abatements in 1973.

[a] ACIR Staff estimate based on State survey March, 1973.
[b] Circuit-breaker program has two essential characteristics—State rather than local financing with a phase-out of tax relief as income rises.

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to the property tax relief needs of elderly homeowners and renters against a hypothetical "strong State response" test. Under such a test the 50 States would underwrite circuit-breaker protection designed to relieve *all elderly homeowners and renters* of that part of their residential property tax in excess of 5 percent of household income. In the case of renters, an amount equal to 25 percent of rent payment is assumed to be property tax.

When measured against this hypothetical "strong State response" test, the State remedial action to relieve the elderly of their extraordinary property tax burdens (most of which has taken place since 1970) still leaves plenty of room for improvement:

- Only 26 States finance tax relief plans and of this group only 14 States underwrite the tax relief instrument of first choice—the circuit-breaker.
- The estimated $410 million in tax relief for elderly homeowners is about one-third of the amount needed to meet the "Strong State Response" test.
- The estimated $25 million in tax relief benefits to the elderly renter is about one-sixteenth of the amount needed to meet the "Strong State Response" test.

Property Tax Relief For Renters

Do renters deserve property tax relief? If so, how should it be extended? The first question should be answered affirmatively if one of the major objectives of a property tax relief program is to reduce the tax burden on low-income families. A large portion of these families are renters, for whom the property tax results in higher rental payments than would be required in the absence of property taxes. The second question poses more problems.

One-Time Reduction in Property Taxes

The amount of the property tax passed on to tenants depends on the supply and demand for rental housing, which varies from time-to-time and place-to-place. If some portion of a property tax increase is included in rents, then the possibility exists that the same portion of a property tax decrease eventually will be reflected in lower rents. It is possible, therefore, that renters could receive the benefits more or less automatically of a one-time reduction in property taxes.

A recent study of the rental housing market concludes, however, that "rents behave fairly sluggishly because of slow adjustment on the part of households and landlords."[3] The full impact on rents of a decrease in property taxes might not be felt for three to five years.

These considerations suggest two ways of dealing with renters under a program of one-time property tax reduction:

1. Reduce property taxes on rental dwellings and wait for the market to pass the reduction on to tenants. This might take several years and might never be visible if it took the form of merely postponing the next rent increase. It would avoid administrative complexity, however.
2. Reduce property taxes on rental dwellings and require landlords to pass the reduction on to tenants immediately. To be effective such a program would require the determination of what rents would be if property taxes had not been decreased, an all but impossible task.

Because landlords might raise rents, this second alternative does not provide an iron-clad guarantee of property tax relief to renters. Presumably, if landlords are able to charge a given rent they could have done so whether or not a property tax reduction had been enacted. To the extent that landlords attempt to recapture decreases in rent the purpose of the program is vitiated.

Continuing Property Tax Relief for Renters

Even if the level of property taxation were reduced sharply and this reduction were passed on to tenants, many low-income people would still bear an extraordinary property tax burden in relation to their income. This might be mitigated through a circuit-breaker program. However, although the application of a circuit-breaker to homeowners is straightforward, the treatment of renters is less clear-cut.

The standard approach is to establish by statute a percentage of rent attributable to property taxes. As noted, the figure used by states with circuit-breaker programs ranges from 10 percent in Colorado to 30 percent in Vermont. That these percentages should vary from State to State is not unreasonable, because the rate of property taxation varies and each State's legislature has a different perception of how much relief is warranted and how much the State can afford. The large disparity in property tax rates *within* States could similarly justify interlocal variations in the percentage of rent constituting property taxes.

Special tabulations from the 1971 *Residential Finance Survey* of the Bureau of the Census provide a basis for estimating the relation between property taxes and rental receipts for rental dwellings in various regions. *(See Appendix A, Tables A-9 and A-10.)* The Census data show variations ranging from 41 percent of rental receipts for one-to-four-unit properties in the Northeast to 13 percent for properties with five or more units in the South. The fact that property taxes represent the largest percentage of rents in the region with the highest property tax

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TABLE 24—ESTIMATED COST OF STATE "CIRCUIT-BREAKER" SYSTEMS TO REBATE TO RENTERS AND HOMEOWNERS THEIR RESIDENTIAL PROPERTY TAXES IN EXCESS OF VARIOUS PERCENTAGES OF HOUSEHOLD INCOME, 1970[1]

Item	Total No. of homeowners and renters (000)	Number of homeowners and renters and estimated cost of a "circuit-breaker" system for households with property taxes in excess of the following percentages of household income—											
		Over 4 percent			Over 5 percent			Over 6 percent			Over 7 percent		
		Homeowners & renters		Est. cost of "circuit-breaker"	Homeowners & renters		Est. cost of "circuit-breaker"	Homeowners & renters		Est. cost of "circuit-breaker"	Homeowners & renters		Est. cost of "circuit-breaker"
		Number (000)	% of total		Number (000)	% of total		Number (000)	% of total		Number (000)	% of total	
All age groups													
Homeowners[2]	31,142	12,976	41.7	$3,793.3	9,592	30.8	$2,711.9	7,571	24.3	$1,997.0	5,598	18.0	$1,460.7
Renters[3]	22,334	15,232	68.2	2,313.9	12,027	53.9	1,636.9	9,754	43.7	892.5	7,922	35.5	551.3
Total	53,476	28,208	52.7	6,107.2	21,619	40.4	4,348.8	17,325	32.4	2,889.5	13,520	25.3	2,012.0
Age 65 or over													
Homeowners[2]	6,294	3,801	60.4	973.6	3,244	51.5	809.5	2,772	44.0	681.6	2,358	37.5	578.4
Renters[3]	3,848	3,287	85.4	414.4	3,010	78.2	313.3	2,728	70.9	232.6	2,396	62.3	159.9
Total	10,142	7,088	69.9	1,388.0	6,254	61.7	1,122.8	5,500	54.2	914.2	4,754	46.9	738.3
Under age 65													
Homeowners[2]	24,848	9,175	36.9	2,819.7	6,348	25.5	1,902.4	4,799	19.3	1,315.4	3,240	13.0	882.3
Renters[3]	18,486	11,945	64.6	1,899.5	9,017	48.8	1,323.6	7,026	38.0	659.9	5,526	29.9	391.4
Total	43,334	21,120	48.7	4,719.2	15,365	35.5	3,226.0	11,825	27.3	1,975.3	8,766	20.2	1,273.7

[1] Assumes that all fifty states and the District of Columbia adopted such a plan.

[2] Limited to one-unit owner-occupied non-farm home properties.

[3] Excludes one-family homes on 10 acres or more. The property tax equivalent amount is assumed to be 25 percent of gross rent.

Source: ACIR staff estimates based on special tabulations provided by the U.S. Bureau of the Census. These 1970 estimates are for one-family owner-occupied homes (31.1 million) and renter-occupied units (22.3 million) due to the limitation of data. The total number of families and unrelated individuals in 1970 was 66.1 million, and is estimated to be approximately 68.5 million in 1972. The 1970 est. total "circuit-breaker" costs (in billions) of: $6.1 @ 4%; $4.3 @ 5%; $2.9 @ 6%, and $2.0 @ 7% would rise to approximately $7.8; $5.5; $3.7; and $2.6 respectively for 1972 when the universe is expanded from 53.5 million household units to 68.5 million in order to include all families and unrelated individuals.

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rates does not necessarily mean that rents are higher on that account.

Because the portion of the rent that is attributable to property taxes (as distinct from the quotient of property taxes divided by gross rents) is clearly not a matter the legislature can determine readily, it has been suggested that the legislature establish the standard on broad equity grounds. Billy D. Cook notes, "The question is not whether property taxes average 25 percent of rent, but whether or not using the 25 percent figure accurately reflects the need of renters versus homeowners." *(See Appendix E, Part I.)*

Rental factors can be developed to provide at a given income level: less relief for renters than that accorded homeowners; about equivalent relief for renters and homeowners; or greater relief for renters than for homeowners. Because renters face higher out-of-pocket costs for shelter than homeowners at the same income level, a strong case can be made for giving renters more relief than homeowners. This could encourage elderly homeowners to rent apartments rather than own homes.

The Ability of States to Finance Major Property Tax Relief

Can the States provide major property tax relief from their own resources? While the findings clearly indicate that all States can finance *limited* property tax relief programs of the circuit-breaker type for low-income families, a major property tax relief program for all households is a far more formidable financial undertaking. Significant interstate variation in property tax burdens as well as the disparities in State use of personal income and general sales tax complicate this issue.

In a few States, mainly in the South, property taxes are so light that any discussion of the need for major property tax relief would be purely academic. In others, mainly in New England and the Mideast but also in other parts of the country, property taxes are particularly heavy. Among these States, some—New York, Vermont and Wisconsin, for example—already make such heavy use of income and sales taxes they might be hard put to offer any substantial general property tax relief from their own revenue resources.

Circuit-Breaker Relief

Circuit-breaker programs with various levels of tax relief and broadness of coverage can be devised to cost anywhere from $1 billion to $6 billion annually. *(See Table 24 and Appendix A, Tables A-11—A-14.)* A program rebating all property tax payments in excess of 4 percent of household income and applicable to all homeowners and renters regardless of income would reach the $6 billion level nationwide—about 30 percent of current residential taxes. A program that applied only to the elderly and rebated property tax payments over 5 percent of household income would now cost about $1.5 billion. The cost of any circuit-breaker program could be reduced by imposing income restraints. For example, only renters and homeowners with annual household incomes less than $10,000 might be eligible.

The States now (as of February 1973) spend some $400 million on relief for the elderly. Most of them help only elderly homeowners, although some also aid elderly renters and the non-elderly poor. This is about one-fourth of the amount that would be spent nationwide on relief for elderly householders under a 5 percent circuit-breaker.

Massive General Relief*

Suppose every State decided to give *substantial general property relief*—for example, a 30 percent general reduction—to be financed by higher personal income and general sales taxes. This would mean (on the basis of fiscal 1971 collections) that an estimated $11 billion would be shifted from local property taxes to personal income and general sales taxes and require a 41 percent hike in those taxes. *(See Table 25.)*

The ability of a given State to shift 30 percent of the local property tax load to State income and sales taxes would depend on two factors: the weight of the local property tax; and the extent to which the State has unused tax potential—particularly personal income and sales taxes. A few examples from Table 25 will illustrate the point.

New Hampshire is an extreme case. Its property tax burden is among the highest in the Nation. In part, this is because it imposes neither a general sales nor a broad-based personal income tax.** It presumably could raise all or part of the $50 million to replace 30 percent of its property tax by levying both a general sales and a broad-based income tax and still have a sales and income tax burden well below the national average.

Connecticut and New Jersey—both of which have sales taxes but no broad-based personal income tax—illustrate the same point, albeit less dramatically. While both States would have to double their sales and income tax yields, they too would have tax burdens below the national average.

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*Because data in this section are based on 1970-71 information (the most recent available on a nationwide basis), they do not entirely reflect recent changes in State tax structures. Any major changes in property tax levels or in general sales or personal income tax provisions would, of course, modify the situation for particular States.

**The $5.2 million shown for New Hampshire in Column (1) of Table 25, comes from a tax on interest and dividends and from a "commuter tax."

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Table 25

The Effect of Shifting 30 Percent of Local Property Taxes to State Personal Income and General Sales Taxes, by Region and State, 1970-71 (In millions)

State and Region	State Personal Income Tax and General Sales Tax Collections	30 Percent of All Local Property Tax Collections	Expanded Personal Income Tax and General Sales Tax Collections cols. (1) + (2)	Percent Increase as Result of Shift Col (3) ÷ Col. (1)	Exhibit: State Personal Income Tax and General Sales Tax Collections as Percent of State Personal Income—Before Shift—After Shift	
	(1)	(2)	(3)	(4)	(5)	(6)
United States	**$26,913.4[1]**	**$10,977.2**	**$37,890.6**	**40.8**	**3.4**	**4.8**
NEW ENGLAND & MIDEAST	8,030.9	3,592.5	11,623.4	44.7	3.4	4.9
New England	1,338.4	928.2	2,266.6	69.4	2.6	4.5
Maine	115.9	54.7	170.6	47.2	3.6	5.3
New Hampshire	5.2	49.6	54.8	953.8	0.2	2.1
Vermont	62.3	25.3	87.6	40.6	4.0	5.7
Massachusetts	758.6	494.1	1,252.7	65.1	3.1	5.0
Rhode Island	120.9	52.0	172.9	43.0	3.3	4.7
Connecticut	275.5	252.5	528.0	91.7	1.9	3.6
Mideast	6,692.5	2,664.3	9,356.8	39.8	3.6	5.0
New York	3,706.1	1,423.5	5,129.6	38.4	4.3	5.9
New Jersey	541.3	579.5	1,120.8	107.1	1.6	3.4
Pennsylvania	1,688.9[1]	456.9	2,145.8	27.1	3.6	4.6
Delaware	79.4	14.6	94.0	18.4	3.3	3.9
Maryland	676.8	189.8	866.6	28.0	4.0	5.2
MIDWEST	7,952.5	3,297.5	11,250.0	41.5	3.5	5.0
Great Lakes	6,039.1	2,332.3	8,371.4	38.6	3.7	5.1
Michigan	1,354.0	519.1	1,873.1	38.3	3.7	5.2
Ohio	1,418.7[1]	537.8	1,956.5	37.9	3.3	4.6
Indiana	622.6	317.9	940.5	51.1	3.2	4.8
Illinois	1,797.4	670.1	2,467.5	37.3	3.6	4.9
Wisconsin	846.4	287.4	1,133.8	34.0	5.2	6.9
Plains	1,913.4	965.2	2,878.6	50.4	3.2	4.8
Minnesota	583.4	243.2	826.6	41.7	4.0	5.7
Iowa	327.6	191.7	519.3	58.5	3.1	5.0
Missouri	494.3	208.1	702.4	42.1	2.8	4.0
North Dakota	71.3	34.9	106.2	48.9	3.9	5.7
South Dakota	53.2	48.3	101.5	90.8	2.5	4.8
Nebraska	142.8	100.1	242.9	70.1	2.6	4.4
Kansas	240.8	138.9	379.7	57.7	2.8	4.4
SOUTH	5,980.7	1,759.3	7,740.0	29.4	3.0	3.9
Southeast	4,757.6	1,128.8	5,886.4	23.7	3.4	4.2
Virginia	542.4	150.3	692.7	27.7	3.2	4.1
West Virginia	250.9	38.8	289.7	15.5	4.8	5.5
Kentucky	422.6	61.2	483.8	14.5	4.3	4.9
Tennessee	276.6	101.9	378.5	36.8	2.3	3.1
North Carolina	587.9	123.2	711.1	21.0	3.6	4.4
South Carolina	322.1	51.4	373.5	16.0	4.2	4.9
Georgia	544.6	148.5	693.1	27.3	3.5	4.5

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State and Region	State Personal Income Tax and General Sales Tax Collections	30 Percent of All Local Property Tax Collections	Expanded Personal Income Tax and General Sales Tax Collections cols. (1) + (2)	Percent Increase as Result of Shift Col (3) ÷ Col. (1)	Exhibit: State Personal Income Tax and General Sales Tax Collections as Percent of State Personal Income—Before Shift—After Shift	
	(1)	(2)	(3)	(4)	(5)	(6)
Florida	715.2	257.2	972.4	36.0	2.9	3.9
Alabama	323.0	35.5	358.5	11.0	3.3	3.6
Mississippi	292.3	50.0	342.3	17.1	5.1	6.0
Louisiana	315.6	71.0	386.6	22.5	2.8	3.5
Arkansas	164.4	39.8	204.2	24.2	3.1	3.8
Southwest	1,223.1	630.5	1,853.6	51.5	2.1	3.2
Oklahoma	164.9	76.4	241.3	46.3	1.9	2.8
Texas	635.6	452.4	1,088.0	71.2	1.6	2.7
New Mexico	154.9	22.4	177.3	14.5	4.9	5.6
Arizona	267.7	79.3	347.0	29.6	4.2	5.4
WEST	4,949.3	2,327.9	7,277.2	47.0	3.7	5.4
Rocky Mountain	641.6	268.5	910.1	41.8	3.6	5.1
Montana	42.4	47.3	89.7	111.6	1.8	3.8
Idaho	101.6	30.7	132.3	30.2	4.4	5.7
Wyoming	34.1	20.6	54.7	60.4	2.9	4.6
Colorado	300.3	127.7	428.0	42.5	3.5	5.1
Utah	163.2	42.2	205.4	25.9	4.8	6.0
Far West	4,307.7	2,059.4	6,367.1	47.8	3.7	5.4
Washington	614.9	139.8	754.7	22.7	4.5	5.5
Oregon	226.2	131.7	357.9	58.2	2.9	4.6
Nevada	65.7	27.4	93.1	41.7	2.9	4.1
California	3,065.0	1,724.2	4,789.2	56.3	3.5	5.4
Alaska	41.8	9.9	51.7	23.7	3.0	3.7
Hawaii	294.1	26.4	320.5	9.0	8.5	9.3

[1]The Pennsylvania income tax became effective on June 1, 1971. The estimate here projects 10 month receipts to an annual total. The Ohio income tax became effective January 1, 1972. Data here are estimates submitted to the President's Commission on School Finance *(State-Local Revenue Systems and Educational Finance.)*

Source: State income and general sales taxes, except for Ohio and Pennsylvania, are from the Bureau of the Census publication, *State Government Finances in 1971.* Property tax collections for fiscal years 1970-71 are from the Bureau of the Census publication, *Governmental Finances in 1970-71.* State personal income data (for calendar year 1970) are from U.S. Department of Commerce, *Survey of Current Business,* April 1972, p. 20.

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States like Vermont and Wisconsin, which now use all three tax sources heavily, would experience difficulty in trying to shift 30 percent of their property tax load to their sales and income taxes. Although the percentage increases in their sales and income tax collections would be at about the national average, their rates would far exceed the national average. A few other States, like California, Minnesota, New York and North Dakota, might experience similar difficulties.

Most of the southern States, which generally make light use of the property tax, would not be forced to raise their sales and income tax rates sharply and would continue to enjoy a relatively advantageous interstate tax position.

Current Federal Role

The Federal government provides a form of property tax relief by permitting the deduction of property tax payments from taxable personal income. However, this relief goes primarily to upper-income families. For the 1972 tax year, some 20 million Federal income taxpayers will itemize nearly $10 billion of property taxes on their Form 1040. This represents about 70 percent of the $14 billion in property taxes on single-family homes. Some fraction of this amount will also appear as itemized deductions on State personal income tax returns and will be written off at a lower rate. For 1972, the cost of property tax deductibility in foregone Federal revenue will be an estimated $2.6 billion.

The estimated distribution of itemized property tax deductions on Federal individual income returns for 1972 is shown in Table 26. A similar distribution for the District of Columbia for 1969, as an example of property tax deductibility on State personal income tax returns, is shown in Table 27.

Poor persons spend a higher proportion of their income on housing than the rich, but upper-income persons benefit more from property tax deductibility. There are several reasons. First, property tax deductibility is worth more to upper-income persons because they are taxed at a higher marginal rate. Second, because of the large and recently increased standard deduction, low-income persons are less apt to have enough deductible expenses to make it worth their while to itemize. Property tax payments by themselves are generally not large enough to make itemization worthwhile, although property taxes plus mortgage interest payments usually are. This works to the disadvantage of elderly persons whose mortgages are paid off even if they have enough taxable income to be liable for the income tax in the first place. Third, most low-income persons are renters, and thus cannot take advantage of the deductibility provisions regarding property taxes and mortgage interest payments.

In addition to the economic advantages of the deductibility provision, the itemizers reap an added psychological advantage—the visibility of deducting the property tax on the income tax form.

Property Tax Deductions—Pros and Cons

The property tax deduction has become a very controversial aspect of the Federal income tax, usually appearing high on the list of income tax "loopholes" when tax reform is contemplated.

Defenders of the tax deduction argue that payment of taxes reduces the ability to pay and this must be taken into account in the calculation of the income tax. Reformists reply that property taxes arise as part of the cost of shelter. If the homeowner can deduct part of the costs of his shelter, then the tenant should be allowed to deduct part of his rent payment.

Another justification of the property tax deduction stems from concern about confiscatory taxation. If each level of government imposed taxes without regard for taxes of the other levels, total taxes might conceivably exceed 100 percent of income. To prevent this, the Federal government allows State and local taxes to be deducted from adjusted gross income.

A third rationale for the deduction of the property tax (and one of the reasons for the deductibility of interest on mortgages) is to encourage homeownership. Behind this homeownership argument is the alleged social value that flows from families with a "stake in the community."

The deduction has also been defended as an indirect form of Federal assistance to State and local governments. The ability of local governments to raise taxes is presumed to be increased when middle- and upper-income persons can partially "write off" increases in their property taxes against their Federal income taxes.

Yet, the property tax deduction manifests several points of inequity. When two taxpayers with the same property tax are compared, the higher-income taxpayer receives the greater benefit. Renters receive no benefit, although they pay part of the tax through their rent. The deduction does work to encourage homeownership, but the incentives become more pronounced as income rises.

The "tranquility argument"[4] stands out as perhaps the most persuasive rationale for preserving the property tax deduction in spite of its manifest inequities. Millions of homeowners have built the tax deductibility privilege into their long-term financial arrangements. Thus any attempt to abolish this tax preference would meet most widespread and strenuous public opposition.

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Table 26

Itemized Property Tax Deductions on Federal Individual Income Tax Returns, 1972

Adjusted Gross Income Class	Number of Returns (thousands)	Taxable Returns With Property Tax Deductions (thousands)	Amount of Property Tax Deductions (millions)	Cost of Property Tax Deductions to Gov't (millions)	Average Property Tax Deduction Per Return With Itemized Property Taxes	Value of Property Tax Deduction Per Return With Itemized Property Taxes
$ 0- 2,999	15,470	55	$ 14	$ 2	$ 260	$ 36
3,000- 4,999	8,740	595	184	29	309	48
5,000- 6,999	7,970	1,450	457	79	315	54
7,000- 9,999	12,610	3,890	1,274	238	327	61
10,000-14,999	17,230	6,725	2,784	580	414	86
15,000-19,999	7,100	3,920	1,984	485	506	124
20,000-49,999	4,375	2,980	2,396	785	804	264
50,000-99,999	415	345	483	246	1,399	712
100,000 and Over	90	81	208	117	2,562	1,446
All Incomes	**74,000**	**20,041**	**9,782**	**2,560**	**488**	**128**

Source: ACIR staff estimates

Table 27

Itemized Property Tax Deductions on District of Columbia Individual Income Tax Returns, 1969

Adjusted Gross Income Class	Number of Returns (hundreds)	Taxable Returns With Property Tax Deductions (hundreds)	Amount of Property Tax Deductions (thousands)	Cost of Property Tax Deductions to Gov't (thousands)	Average Property Tax Deduction Per Return With Itemized Property Taxes	Value of Property Tax Deduction Per Return With Itemized Property Taxes
$ 0- 2,999	532	42	$ 1,356	$ 27	$ 323	$ 6
3,000- 4,999	601	70	2,325	81	332	12
5,000- 6,999	617	95	2,862	143	301	15
7,000- 9,999	656	155	4,984	299	322	19
10,000-14,999	361	122	4,809	337	394	28
15,000-19,999	121	57	2,784	223	488	39
20,000-49,999	115	73	5,328	480	730	66
50,000-99,999	12	10	1,532	153	1,473	147
100,000 and Over	5	4	864	86	2,261	226
All Incomes	**3,020**	**628**	**27,051**	**1,729**	**428**	**27**

Source: Billy D. Cook, "An Analysis of the Utilization of the Deduction Sources—Who Benefits from Selected Itemized Deductions under the D.C. Income Tax?", unpublished paper, 1972; cost of deductions and value of deduction per return estimated by ACIR staff.

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Summary

There appears to be a growing division between federally-financed and state-financed property tax relief. The Federal government has always provided indirect property tax relief for the middle- and upper-income group by means of the income tax deduction for property taxes (currently $2.6 billion in Federal revenue foregone). The States and localities are providing approximately $400 million in direct but limited property tax relief for low-income and elderly families.

While the States still have a long way to go before reaching the goal of heavy duty protection, the momentum of the property tax relief movement for the elderly is now so strong that it is reasonable to expect that virtually all of the States will be providing heavy duty protection for *elderly homeowners* within five or six years.

The situation with respect to *elderly renters* is far different. It will probably take a long time before most States bring this group into their property tax relief fold. The same can probably be said for the low-income non-elderly homeowners—although there are a few signs of growing support for universal circuit-breakers that would shield all low-income and most middle-income families (renters as well as homeowners) from excessive property tax loads.

FOOTNOTES

[1]"*Sunt rerum lacrimae et mentem mortalia tangunt.*" *Aeneid*, Book I, 462.

[2]Kenneth E. Quindry and Billy D. Cook, "Humanization of the Property Tax for Low-Income Households," *National Tax Journal*, September 1969.

[3]Frank de Leeuw, *Time Lags in the Rental Housing Market* (Washington: Urban Institute, 1970), p. 54

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chapter VI

four approaches to reform the property tax: their potential for relief

What one man can imagine, another can make a reality.

Jules Verne

Four approaches to reform the property tax are receiving considerable attention from tax policymakers. They are: actions to insure proper assessment, reclassification of property, the levy of a uniform statewide property tax and site value taxation.

This chapter will describe these approaches and evaluate their potential both to substitute for general residential property tax relief and to improve the property tax structure.

Assessment Reform

On the basis of an extensive study of property tax assessment administration, ACIR issued a report that contained 29 recommendations to the States for rehabilitating their property tax assessment systems.[1] Four major premises underpin the Commission's prescription for overhauling property tax administration:

1. The prevailing joint State-local system of administering the property tax can work with a reasonable degree of effectiveness only if the State tax department is given sufficient executive support, legal authority, and professional stature to insure local compliance with State law calling for uniformity of tax treatment.

2. Professionalization of the assessment function can ordinarily be achieved only if the assessor is removed from the elective process and is selected on the basis of demonstrated ability to appraise property.

3. Each State should pursue a full disclosure policy, requiring the State tax department to make annual ratio studies and to give property owners a full report on the fractional valuation policy adopted by local assessors.

4. Appeal procedures should be relatively simple and each aggrieved taxpayer should be specifically authorized to introduce State assessment ratio data as evidence in appeals to review agencies on whether his assessment is inequitable.

Many advocates of assessment reform claim that these reforms to remove the inequities between different properties would be reflected in a tremendous shift of the property tax burden from residential property owners to business property. They also suggest such a change would provide the taxing jurisdictions with a substantial increase in revenue.

But the claim that a property tax bonanza will accrue to small taxpayers and to local governments as a result of assessment reform must be viewed with caution. There are several reasons for this:

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1. Some big firms undoubtedly are being underassessed as a result of the cupidity or incompetence of local assessors. Indeed, in local situations where a relatively few with large holdings get the favor of discounted assessed valuations, the effect is to increase the burden for other components of the base. Favoritism, however, can also result from a deliberate State policy to ignore constitutional or statutory mandates for assessment uniformity. A timber State, for example, may take the position that forestry must be encouraged and protected, regardless of what the State constitution says. If pressed to correct the situation, State policymakers will seek to change the constitution in a way that continues the encouragement of forestry. If the latter policy is indeed the will of the people, it should survive within the law and not outside of it.

2. Cases of overassessment and underassessment of business property easily can be more apparent than real. Whenever the market is so sparse or subjective that it prevents or hinders discovery of its existence, its utility as a criterion dissolves. Such is the market for much business property. An assessed value which that market judges "low" may be just as correct as one which that market judges "high" Nobody really knows, and nobody ever will know until more objective determinants of what is correct can be identified and applied.

3. Some revaluation experience suggests that the little taxpayers (farmers and homeowners) are more apt to be systematically underassessed than business firms—especially publicly regulated companies and commercial establishments. Again, however, it should be realized that terms like "underassessed" in this context contain inherent deficiencies. The basis for judging either a residential property assessment or a business property assessment is the market within which each is calculated. Residential property markets, though often themselves influenced by subjective, capricious factors, nevertheless possess more discernible value identifying characteristics than business property markets. The latter possess practically no standardization. This not only helps to explain differences among appraisers; it also seriously undermines *any* judgment about assessment that is based on an assessment/"sales" ratio for business or industrial property.

There is no doubt that among the tens of millions of individual parcels of real estate that are assessed in this country for property tax purposes, many cases of apparent underassessment and overassessment could be found.* But, the *1967 Census of Governments* shows 20 States in which commercial and industrial assessment levels are higher than those for residential property, 24 in which the situation is reversed, and 7 in which there is a standoff.[2]**

An unpublished tabulation of 1966 assessment ratios for larger cities, arranged by size-class of property, reveals a generally progressive situation: as values rise so do assessment ratios.** This is true in 85 percent of the 117 cities for which valid data are available. A comparison from the same tabulation of the assessment ratios for single-family homes with those for apartment houses shows that the former were "underassessed" relative to the latter in about three-fifths of 116 cities. And, a similar pattern existed when total residential property (both single-family homes and apartment houses) was compared with commercial and industrial properties.***

As noted, the conclusions to be drawn from the Census sales/assessment ratio data apply only to "ordinary real estate" and therefore have limited applicability. Other, more broadly based evidence, however, also indicates that commercial properties are often assessed at a higher level than residential properties.

An intensive study of assessment ratios in Boston, based on 1962 sales prices and assessments, found that without question commercial property was assessed at a much higher ratio than residential property.[3] In central Boston, single-family homes were assessed at 44 percent of market value, while commercial property carried a ratio of 78 percent. Indeed, looking at the ratios for the city as a whole,**** there was a smooth progression of ratios: from 34 percent for single-family homes to 41 percent for two-family residences, 52 percent for three-to-five family residences, 58 percent for six-or-more families, and 79 percent for commercial properties.

A recent article in the *New York Times* indicates a similar situation in New York City:

> Generally, the homes are assessed at a much lower ratio to their market value—the price the

*According to the *1967 Census of Governments*, there were 7.48 million locally assessed real properties in 1966.

*The Census ratio data apply only to "ordinary real estate," i.e., *excluding* separately assessed mineral rights, realty not subject to use-classification, and real estate that is presumed to have a market value of over $250,000.

**See Appendix A, Table A-20 for a summary of the detailed census tabulation. Again, the data are for "ordinary real estate."

***Data for only 39 cities could be used for this comparison, as there were too few valid transfers of commercial and industrial properties in most of the cities for which the Bureau of the Census compiled such information.

****Ratios varied considerably as between sections of the city as well.

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house could be sold for—than income-producing properties. "This undervaluation," according to a report by the State Commission of Investigation, (is) "apparently a traditional and deliberate decision on the part of various city administrations to deter middle-income families from leaving the city for the suburbs."[4]

When Kentucky was forced by court action in 1965 to quadruple its assessed values from about a 25 percent level to the constitutionally required fair cash value, the result was as follows (in millions of dollars).[5]

Class of Real Estate	Assessed Valuation		
	1/1/65	1/1/66	Percent Increase
Residential	1,639	5,617	342.7
Farms-Acreage	788	3,777	479.3
Commercial-Industrial	685	2,243	327.4
Oil, Mineral Rights, etc.	75	174	232.0
Total	**3,187**	**11,811**	**370.6**

On the average, residential and farm properties apparently were assessed at a lower level than commercial and industrial property—and considerably lower than oil and mineral rights—before the reassessment.

Because of the thin market for commercial and industrial properties, assessors generally use non-market factors to arrive at taxable valuations for such properties—reproduction cost and depreciation factors, as well as capitalized earnings. The "non-market" taxable valuation becomes the numerator of the ratio fraction, and value as indicated by the "thin market" becomes the denominator. A recent report on assessment practices in Cook County should be judged within this framework, when it notes that the assessment ratio for commercial and industrial properties is about double that for single-family homes. Commercial and industrial properties, especially within the city of Chicago, "have generally *declined* in market value much faster than the Assessor's traditional depreciation factors have allowed for. The result is that older buildings tend to have considerably *higher* assessment ratios than the newer ones."[6] A similar conclusion was drawn by Oldman and Aaron regarding such properties in Boston.[7] These conclusions of course, are, significant only to the extent that apparent declines in value are significant in thin markets.

Conclusion

It is clear that individual properties will be found which have been given preferential treatment by the assessor—wittingly or unwittingly. Indeed, when it comes to complex industrial plants, three private appraisers and three tax assessors, all equally competent and using generally accepted methods, could well arrive at six different valuations. The subjective nature of property appraisal—particularly for complex properties that change hands infrequently—may well result in random underassessment or overassessment. Therefore, even the strongest effort to achieve absolute uniformity of assessment might not result in a general increase in assessments for large industrial and commercial properties and a reduction for homeowners and small businessmen.

Nor is it likely that assessment reform *per se* would result in a tax bonanza for local governments. Jurisdictions that drastically increase the overall assessment level through reassessment—to achieve uniformity—generally take steps to roll back rates and avoid the sharp increase in individual tax bills that would otherwise result from a general increase in valuations.* Otherwise, the reassessment effort is doomed to failure. If there were significant disparities between different types of property before the general reassessment, the reassessment will *shift* tax burdens, not increase property tax collections.

Property Tax Classification

Cognizant of the fact that general assessment reform will not necessarily provide residential property tax relief, State policymakers have been considering another change—tax classification—which can be a vehicle for deliberately shifting part of the property tax burden from residential property to business property. One scheme now being discussed in New Jersey is designed both to relieve residential property taxes and to raise State revenue to help finance local schools.

New Jersey Plan

New Jersey, like many other States, is faced with the problem of revamping its State-local tax structure in response to a court mandate for a more equitable system of school finance. A comprehensive tax study recommended a massive restructuring of the New Jersey tax system, including: enactment of a broad-based personal income tax; massive reduction of local property taxes, underpinned by stringent tax limits and replaced, in part, by a uniform 1 percent statewide property tax; a circuit-breaker for low-income elderly householders; and strengthened property tax assessment administration.[8]

The New Jersey Tax Policy Committee, the body that conducted the study, considered a tax classification proposal but turned it down because of two potentially detrimental effects:

First it would restore the pressure on local

*Both Kentucky and Washington had to take such steps in their recent reassessment programs which quadrupled values in Kentucky and are doubling them in Washington.

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officials to zone out people, which the Committee's program is designed to avoid; and second, it would shift a substantial portion of the tax burden from homeowners to home renters and to apartment dwellers, the latter getting no benefit from the homestead exemption. Experience in Florida indicates that homestead exemption also tends to raise the tax rate on all local property and to create the need for additional taxes in the form of local non-property taxes. In an industrial state such as New Jersey, which depends upon a healthy economic environment for industrial development perhaps more than other states, any attempt to shift the tax burden from residential to commercial and industrial property by a legally sanctioned classification system would create a very damaging reputation for the state and seriously affect its future economy, employment and payrolls.[9]

The tax reform legislative package that was submitted by Governor Cahill to implement the Committee's recommendations did not include property tax classification. It, did, however, take cognizance of the windfall effect of the proposed drastic property tax reduction plan and make provision for partial recapture of such gains to business.

The package was rejected, however, when the legislature failed to enact a personal income tax. Much of the opposition to the Tax Policy Committee's proposals came from the Democratic minority in the General Assembly, which felt that the business sector was not being called on to carry enough of the tax load.[10]

New Jersey policymakers are still faced with the need to raise sufficient funds for expanded State financial support of local schools. To accomplish this, the Democratic minority proposed a substantial statewide property tax levy for education, classified to increase the burden on business property and reduce it on residential property. Specifically, Senate Minority Leader J. Edward Crabiel has proposed a statewide property tax at $2.40 per $100 of taxable value on business and 40 cents per $100 on residential property—six to one against business. Several Democratic Party assemblymen have proposed a three-to-one levy—$2.25 per hundred on business and 75 cents on residential and farm property. The New Jersey legislature will be considering these and other school financing plans as it continues to try to resolve the dilemma posed by the courts.

Other Tax Classification Schemes

As the courts increasingly question the constitutionality of extra-legal property tax classification that has been brought about by shoddy assessment practices, tax policymakers are beginning to take the position that, if they must resolve the conflict between law and practice, they will do so consciously by removing the uniformity provisions and specifically authorizing the legislature to discriminate among property classes.

Six States now comprehensively classify property for tax purposes.* Five of them do so with the express purpose of imposing a heavier property tax on business than on homeowners and farmers. Montana, which has ten separate classes, places the usual kinds of real estate—residential, commercial and industrial, and farms—in one class to be assessed at 30 percent of "true and full value," and uses the other classes for various kinds of personal property.

West Virginia's classification system, which applies to rate limits rather than assessment levels, establishes higher limits for business property than for residential or farm property. And Minnesota—which has been classifying property since 1913—now has an extremely complex system that contains 25 separate classes. Owner-occupied homes are given a homestead exemption through the classification system by requiring the first $12,000 of market value to be assessed at 25 percent (for farms the ratio is 20 percent) and the remaining full value at 40 percent (33-1/3 percent for farms). Commercial and industrial real estate is required to be assessed at 43 percent of market value.

The three most recent entries into the tax classification field—Alabama, Arizona and Tennessee—took a much simpler approach. Each State's classification system established no more than four classes and was aimed frankly at taxing business property at a higher rate than owner-occupied homes and farms. *(See Table 28.)*

Alabama and Tennessee had to amend their constitutions to allow classification. Arizona simply needed to enact legislation (in 1967) to implement a long-standing constitutional provision stipulating that, "all taxes shall be uniform upon the same class of property within the territorial limits of the authority levying the tax, and shall be levied and collected for public purposes only."[11]

Both the Alabama and the Tennessee constitutional amendments followed court decisions that declared their assessment practices discriminatory.

In Tennessee, two railroads brought suit in 1966

*Alabama, Arizona, Minnesota, Montana, Tennessee and West Virginia. The new Illinois constitution allows a form of property tax classification in the largest counties (those over 200,000 population) by providing that "the level of assessment or rate of tax of the highest class in a county shall not exceed two and one-half times the level of assessment or rate of the lowest class in that county" (Art. IX. Sec. 4 (b)).

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Table 28

Property Classifications and Assessment Levels In Alabama, Arizona and Tennessee

Class of Property	Assessment Ratio		
	Alabama	Arizona	Tennessee
Railroad Property	30%[1]	60%[2]	55%[1]
Utility Property	30	40	55
Commercial and Industrial[3]	25	25	40
Residential and Farm	15	18	25[4]

[1]Included with utility property classification.
[2]Also producing mines and standing timber.
[3]Includes multi-family residential rental property (apartment houses).
[4]Farm property established as a separate class, but with the same ratio as residential property.

on grounds that their properties were assessed at a higher level than other properties. The courts ruled in favor of the railroads, and the Louisville and Nashville R. R. decision was upheld by the U.S. Court of Appeals, Sixth District in a decision handed down on February 14, 1968.[12] A constitutional amendment authorizing property tax classification was approved by the electorate in August 1972.

The United States District Court, on June 29, 1971, declared unconstitutional a 1967 Alabama law that changed the statutory assessment ratio from 60 percent to "up to 30 percent," on the grounds that this provision was too vague and allowed assessors to establish assessments from zero to 30 percent.*

The court ordered the State Commissioner of Revenue to equalize assessments to the 60 percent standard (the standard that had been superseded by the law that was declared unconstitutional) within one year. Soon thereafter, the legislature approved a classification amendment for submission to the electorate. The voters ratified the amendment on May 30, 1972.

Legal, Political and Administrative Implications

Depending upon the precise legal concepts used, different studies of property tax classification among the States indicate that about 30 States now have some constitutional authority to classify real property. But many of these, as well as the other 20 States, would require constitutional amendments to give the State legislature broad discretion in classifying real property.[13]

*Susan Lee Weissinger, et. al. vs. Charles A. Boswell. There was also a technical point that the law was a revenue measure and therefore should have originated in the House of Representatives rather than in the Senate.

Constitutional changes to provide for property classification are hard to come by. Numerous attempts were made in Tennessee, beginning in 1915, before the amendment was finally adopted in 1972. Such proposals have been turned down repeatedly by the electorate in Massachusetts—most recently in 1970. Taxpayers generally mistrust any proposal that would shift the burden of a tax for fear they themselves may end up with higher tax bills. Similar reasoning is usually applied to proposals to move from fractional to full-value assessment.

Classification does not absolve the State and local assessors of their responsibility to assure assessment uniformity within each class; indeed it fortifies the need to accomplish this goal. Commenting on this aspect of property tax classification, Rolland Hatfield, a former Minnesota Tax Commissioner, wrote:

> . . . from observation of our (Minnesota's) system, classification appears to be no cure for illegal assessments. If it really was believed in those days that legalization of what the assessor was doing illegally would stop the illegal process, especially with regard to fractional assessments, then I can also assure you that history has proven just the opposite. The assessor, under the classified system, has proceeded to have his fractional assessments just as he had before. So we have a situation where we have not only legal classifications, but also illegal fractional assessments; and this, of course, compounds the inequities that exist between one class of property and another.[14]

One further aspect of classification centers around the identify of market value. Properties which do not sell, or which sell only rarely, or which "sell" more in a nominal than genuine sense, do not lend themsevels to valuation in terms of market value. Many industrial and commercial properties are in this category. For them, a statutory requirement for assessment at "43 percent of market value" or "60 percent of market value" is as difficult a standard as a requirement for assessment at full market value. Moreover, it provides little assurance of equitable tax burden distribution among typpes of property. Indeed, the stated percentages can easily mislead. If industrial property is to be assessed at 40 percent of market value and residential property at 20 percent, the implication is that the burden on industrial property is twice that on residential property. This would be true only in the extremely unlikely circumstances that a market actually conditioned the assessment of each.

The reality is very different. Industrial properties are not part of any market in the sense that residential properties are. When they are "sold," transfer

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considerations adjust, magnify, minimize, or conceal any dollar amount that might be called the price. Obviously, 40 percent of such a quantity indicates very little, if any, relationship it may have to 20 percent of what the average house sells for.

This is a particular problem with classification. It may intend "favorable" treatment for residential property within a statutory framework, and it invites that superficial interpretation. Because its implementation is based in part on what cannot be identified, however, its value in the promotion of equity is dubious. The need remains to find a better standard for valuing properties basically resistant to the concept of market value.

One other complication deserves mention. Whenever multi-family housing is included in the commercial and industrial class (as frequently happens) the possibility arises of tax burden on tenant-occupied housing heavier than that on owner-occupied housing.

Conclusion

Tax classification purportedly gives State policymakers—and the electorate by referendum—an opportunity to determine by constitutional and legislative action how the property tax will affect different kinds of property. For those classification systems that have been initiated recently, the intent has been to shift more of the property tax to commercial and industrial firms and away from homeowners and farmers. But the use of "market value" as an assessment standard at best complicates, and may even prevent the achievement of this intent.

Is tax classification property tax relief? Certainly the current intent is to provide relief to homeowners and farmers. But this intent can only be guaranteed if at the same time firm action is taken to strengthen and supervise assessment administration, and to define valuation standards with greater precision. Genuine uniformity in effect will remain as elusive as it is under usual constitutional and statutory provisions. Further, tax classification may give the State an anti-business reputation, with the result that pressure may increase on local assessors to "go easy on business property."

Tax policymakers often propose property tax increases on business in the belief that they can be passed on readily to the consumer—a form of disguised sales tax. This tax-shifting assumption is coming under increasing fire as economic theorists give greater weight to the claim that the property tax is a levy on wealth and therefore is not readily passed on to consumers.* Despite uncertainty about incidence, one factor cannot be ignored by State tax policymakers—the possibility that what looks like legally sanctioned tax "discrimination" against business may adversely affect the State's economy, even though preferential assessment may offset part or all of the legalized "discrimination."

*See Chapter IV, p. 34 ff.

Statewide Property Tax

Pressures from the courts and tax study commissions to revamp local school finance are posing some knotty problems for State policymakers.* These pressures are directed toward shifting from local property taxation to a broad form of State financing. Some States, like Hawaii and a number in the South, have been moving in this direction for many years. Others, like California, New York and Wisconsin, which already make heavy use of sales and income taxes, also rely heavily on local property taxation.**

Proposals have been made in California, New Jersey and New York for statewide property taxes to finance local schools. More such recommendations will follow. What are the property tax relief and reform implications of such proposals?

Economic and Fiscal Effects of a Statewide School Levy

A uniform State rate would tax property tax resources equally across the State, regardless of how those resources are distributed among the local political subdivisions that provide educational services. By the same token, the tax rate applied to a community with a large property tax base would make more funds available for statewide distribution than the same rate applied to a community with a small base. In this sense, the statewide property tax has an equalizing tendency; property tax revenue from the wealthy school districts is redistributed to the poor ones.

To the extent that a statewide tax replaces local school taxes it has similar effects to those described in Chapter VII, under "Economic Windfall Issue." The change in local taxes would bring capital gains to owners of property that had been taxed at rates above the new statewide rate and capital losses to owners of property in jurisdictions where the tax was below the new statewide rate. The actual effect on a particular community would depend on the level of the State rate and the amount of local property taxes it supplants.

Replacing local *school* property taxes with a statewide property tax will differ from replacing *all* lo-

*See Chap. IX, p. 101 ff, for a discussion of the court decisions on school financing.

**Virtually all States imposed general property tax levies prior to the 1930's. Although about half of the States now levy uniform State general property taxes, these levies are minimal except in a handful of States.

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cal property taxes because wide interjurisdictional variations exist in school rates relative to rates for non-school purposes. In large urban centers, school rates often comprise as little as 30 percent of the total property tax; in wealthy suburbs they may be as much as 80 percent of the total levy. Thus an area cannot be assured that, because it has the highest *total* tax rate, it will experience the largest property tax rate reduction after the local school tax is replaced.

Effect in an agricultural State. School property taxes were analyzed in a predominantly agricultural State to determine the effect of a statewide property tax for schools on the tax burdens of farmers. The rates were adjusted from the actual rates by converting property values to full and true value, eliminating currently applied farmland tax preferences and requiring each school district to raise the same revenue as before. Then a uniform statewide rate was calculated that would provide the same total revenue. The tax liability of each of the three classes of property—agricultural, non-agricultural residential, and non-agricultural business—was computed. In this example, the property tax liability for farm property as a whole would be *increased* by 10.6 percent under a statewide tax; that on business would be *reduced* 12.5 percent, and that on residential property, *reduced* by 9.4 percent.

Farms, non-farm businesses and residential property can all be found (in varying combinations) in most school districts, and the tax liabilities on various properties in one district would be increased or decreased in tandem. Thus what is true of farmland in the aggregate for a State is not necessarily true of each parcel of farmland. The State analyzed had 207 school districts. A district-by-district examination of the data showed that 73 districts would experience tax reductions and 134 would experience tax increases under a statewide tax. While the districts experiencing the tax decreases had 43.4 percent of all taxable property, they contained only 27.7 percent of all agricultural property.*

Effect in an urbanized State. An analysis was made of New Jersey data to determine the effect of a statewide school tax on the tax rates in major cities. It was found that a statewide tax rate of approximately 2.4 percent would raise the same amount that the local school districts raised with their existing rates and a statewide tax rate of approximately 3.3 percent would be required to level up school expenditures per child to the 95th percentile.

The 12 largest municipalities in New Jersey and their effective tax rates for schools in 1971 are shown in Table 29. Eight of the 12 have rates above 2.4 percent, but only one is above 3.3 percent. Of all 567 municipalities in the State, only 41 had school rates that high. Newark taxpayers would clearly gain from statewide financing of schools under any circumstances, and most of the largest cities would probably gain if school expenditures were equalized at a lower level.

Table 29

Effective School Tax Rates in the 12 Largest Municipalities in New Jersey, 1971

City	Population (1970 Census)	School Tax Rate	Rank for Total Tax Rate[1]
Newark	382,374	4.28	6
Jersey City	260,549	3.24	7
Trenton	104,521	3.06	8
East Orange	75,419	2.91	4
Camden	102,551	2.86	14
Union City	58,537	2.78	12
Paterson	144,835	2.74	27
Passaic	55,124	2.45	12
Bloomfield	51,997	2.09	72
Irvington	59,727	2.09	23
Elizabeth	112,720	2.02	161
Bayonne	72,719	1.72	63

[1]Based on ranking for all 567 municipalities in New Jersey

Source: New Jersey Tax Policy Committee, *Report Vol. II, The Property Tax* (Trenton: February 23, 1972), Appendix table A-3.

Seven-State simulation. A comparative analysis of seven States was made by staff of the Office of the Assistant Secretary for Planning and Evaluation, Department of Health, Education and Welfare, and the National Planning Association.* Looking at the largest city, other central cities, rural areas, and suburbs at seven income levels, the analysis simulates the changes in per-pupil school expenditures and taxes that would result from maintaining the same total expenditure in each State, but equalizing school expenditures in all districts and then financing the expenditures through a statewide property tax.

Preliminary results indicate increased taxes in the

*If the current farmland preferences are retained in calculating both local and statewide rates, the liability of agricultural property would still be increased by 9.2 percent if all property taxation for school purposes were shifted to the State level.

*This analysis was still in process at this writing, and the findings and conclusions can only be considered tentative. These results are part of a larger study by Alan Ginsburg, Susan Sargen, B. J. Stone and Joan Turek, scheduled for completion in 1973. The seven States are: California, Kansas, Massachusetts, Mississippi, New York, Texas and Virginia.

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rural areas of six states and a negligible decline in the seventh (Mississippi). These increases in taxes could be accompanied by increased expenditure per pupil in four of the seven cases and decreased expenditures in the other three. In four States the higher-income suburbs (top three classes) would have lower taxes; in one State the results would be mixed; and in two, data are not yet available. All the higher-income suburbs for which there are data also would experience substantial reductions in school expenditures. The results for the other four income classes of suburbs would be mixed, showing lower taxes in New York and Massachusetts, some indication of increased taxes in California and Texas, and no discernible pattern in the other three.

The pattern for center cities is irregular. In Kansas, Massachusetts and Texas, statewide financing reduces taxes in the center cities; in New York, it increases them. In Virginia and Mississippi, the largest city experiences higher taxes while the other center cities experience decreases. In California, the result is reversed. Thus, the preliminary results of this simulation—the most extensive study made thus far of the actual effects of a statewide property tax for school financing—indicate the hazards of generalizing about the effects of such a policy.

Legal and Political Obstacles

Sixteen States would have to amend their constitutions or submit the question to referendum in order to have meaningful State-level property taxes. Almost all the remaining States would require changes in statutory limits or other statutory revisions.[15]* The general public disaffection with the property tax would lead to citizen resistance to these changes unless they were accompanied by some reduction in the overall property tax burden.[16] But even with some promise of property tax relief, proposals for statewide property tax levies—because of the intended redistribution of resources which is at their heart—can be expected to encounter political obstacles. The difficulties would be compounded in States with substantial variation in interdistrict assessment levels—those particularly vulnerable to property tax burden shifts that would result from statewide levies—unless special steps were taken to equalize the variations.

In an article on the need to restructure school financing, a New York State Senator pointed out the possible consequences for the property tax:

> Practically, the first steps would be (for the States) to take over the real estate tax base. This requires dealing with the very difficult problems of equalization of assessments to determine "true value". This change may result in a reform that would be beneficial to local communities in the use of this tax base for other services. When you tamper with an existing tax structure, the removal of these inequalities creates political sensitivities that pragmatically make change difficult—even impossible.[17]

Finally, since a statewide property tax levy to finance schools is likely to shift resources from rich areas to poor ones, it is bound to be opposed by the more highly endowed communities. A uniform levy would raise relatively more revenue in the jurisdictions with high-value tax bases than in the low-value jurisdictions. Since the State would apportion the funds back to the local communities on the basis of need rather than origin, some of the property tax revenue raised in the wealthy communities would therefore be redistributed.

This was undoubtedly a key factor in the minds of New Jersey legislators when they turned down a personal income tax bill in July 1972. This legislation was the cornerstone of the comprehensive tax reform program that had been recommended by the blue ribbon Tax Policy Committee. *(See p. 71)*

Administrative Implications

A return to State property taxes could well hasten more effective State supervision over property taxation.

Once a uniform levy is spread over the entire State, something has to be done about differentials in assessment ratios among local assessing jurisdictions. The State would have to keep close track of assessment ratios by means of studies and it would either have to enforce the equalization of differentials or apply variable State rates in accordance with those differentials. The State would also have to impose stiff standards for assessing personnel, provide effective assessing tools and guidelines and offer technical assistance to local assessors. It might even have to take on part of the assessing job itself. The result could be a more equitable system of property taxation—both for State and for local purposes.

Ideally, the State would have to make sure that all local jurisdictions value property at the same assessment level. Otherwise the State rate would not be uniform across the board, as intended. Short of this, it would be necessary for the State to measure the interjurisdictional assessment ratios carefully in order to develop adjustment factors as a basis for varying the State rate as it bears on different assessing jurisdictions.

The California State Board of Equalization, which conducts one of the most sophisticated assessment ratio studies in the nation, is convinced that absolute inter-jurisdictional uniformity (as to assessment lev-

*See Appendix F for details.

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els) cannot be achieved without drawing considerable fire from the local assessors and the local citizenry.[18] The California agency urges its legislature to consider what Ronald Welch calls "variable–ratio equalization"–a procedure whereby the State agency would adjust the State tax rate in each county in accordance with its assessment ratio findings–should it adopt a statewide property tax levy.[19]

Conclusion

If a State overcame the legal and political obstacles and adopted a substantial statewide property tax, this action probably would be accompanied by a move to strengthen the State's role in assessment administration. Without a stake in the property tax as a State revenue source, States are reluctant to supervise local assessment practices.

Frequent and comprehensive ratio studies would be essential to maintaining an equitable State property tax levy. They would also be instrumental in producing full disclosure procedures, thus keeping the taxpayers informed of the basis for their property tax bills. The need for rationalizing the local government assessing organization would become obvious as the State adjusted the levy to eradicate or accommodate the numerous differential assessment levels.

A statewide property tax for schools would result in tax relief in some communities and tax increases in others. Where present school rates are below average, as in agricultural areas and in many central cities, a statewide rate might well mean a property tax increase (but it could also mean a higher level of school spending). Where school rates are above average, as in many suburban communities, it could result in substantial property tax relief. A statewide property tax for school financing would thus result in an intercommunity shift in both property tax burdens and the level of school spending. To the extent a statewide property tax resulted in more uniform assessments generally (because of better State supervision–or even takeover–of the assessment process) it could also mean a significant move toward a more effective and equitable revenue instrument.

Site Value Taxation

Take now . . . some hard-headed business man, who has no theories, but knows how to make money. Say to him: "Here is a little village; in ten years it will be a great city–in ten years the railroad will have taken the place of the stage coach, the electric light of the candle; it will abound with all the machinery and improvements that so enormously multiply the effective power of labor. Will, in ten years, interest be any higher?"

He will tell you, "No!"

"Will the wages of common labor be any higher . . . ?"

He will tell you, "No, the wages of common labor will not be any higher. . . ."

"What, then, will be higher?"

"Rent, the value of land. Go, get yourself a piece of ground, and hold possession."

And if, under such circumstances, you take his advice, you need do nothing more. You may sit down and smoke your pipe; you may lie around like the lazzaroni of Naples or the leperos of Mexico; you may go up in a balloon or down a hole in the ground; and without doing one stroke of work, without adding one iota of wealth to the community, in ten years you will be rich!

Henry George

In the face of high property tax rates and renewed interest in the problems of America's urban areas, serious attention has been focused on the concept of site value or land value taxation.* The idea of site value taxation dates back nearly a century to the writings of Henry George. Essentially it is a tax on land–either exclusively or at rates higher than those applicable to the value of improvements. It differs from the current pattern of the property tax which applies generally the same tax rate to both land and improvements, and, in effect, often taxes improvements at higher rates because land is underassessed relative to improvements.**

*For a detailed discussion of site value taxation in Hawaii and efforts to introduce it in Oregon, see Appendix H.

**One reason why land is generally undertaxed relative to buildings is given by Mason Gaffney: "Property assessment also plays a central role in avoidance of state and federal income taxes. Income property is tax-depreciable. Law and Internal Revenue Service (IRS) practice allow repeated depreciation by successive owners, ridiculous as that may be. The law recognizes that land does not depreciate, so each successive owner can depreciate only the building, not the land. When he buys he must allocate the cost between depreciable building and nondepreciable land. Enter the local tax assessor. It is IRS practice to accept the local assessor's allocation of value between land and buildings. Local assessors, by undervaluing land relative to buildings, thus help their constituents depreciate land and so avoid a large share of the income tax due on real estate and help convert it from a taxpayer to a tax shelter. This is the modern version of competitive underassessment, one that costs the federal treasury billions annually and goes virtually un-

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The case for site value taxation rests on the idea that the tax is capable of raising substantial amounts of revenue without discouraging productive activity or encouraging inefficiency. This comes about because—as noted before—the quantity of land is completely fixed. Land, for all practical purposes, cannot be created or destroyed. Landowners cannot collectively supply more or less to the market. Potential renters need bid no more for the land than they did before the tax was imposed, since the owner must rent the land to someone, if only to himself. Consequently, taxation of the land will simply divert part of the rental returns of the land to the taxing authority and away from the owners of the land.

Consequences of the Present Property Tax

Because the present property tax increases as the value of buildings or improvements rises, it is not neutral toward land use and the construction of buildings. This can be illustrated by "converting" the property tax rate to its sales tax equivalent. An annual property tax payment of one dollar continued for 60 years and discounted at five percent, has a present value of $19. Thus, an effective tax rate of 1 percent, lower than effective rates in most localities, would be equivalent to a 19 percent tax payable at the time of building or a 19 percent sales tax. The usual State sales tax rate is 4 or 5 percent. If considered in these terms, the property tax could be a potential deterrent to the purchase of (and thus investment in) new buildings. The conversion of the property tax rate into its sales tax equivalent has led to the charge that the property tax is an unjustifiable tax on housing consumption.

Because the present property tax is not neutral toward the construction of buildings it acts as a deterrent to the expenditure of capital on land. Therefore the present property tax works in favor of less intensive site development and constitutes a force to promote leap-frogging development and urban sprawl. Partly as a result of the way improvements are taxed, many areas are held in relatively low use. This in turn fosters speculative land holding because the owner, whether recent or long-time, will hold the land as long as the rate of return exceeds the tax. The potential increase in tax liabilities will deter him from improving it.

To be sure, the property tax is not the sole villain—favorable capital gains tax treatment adds incentive to land speculation as does fiscal zoning (the practice of requiring minimum-size lots and forbidding multiple-family dwellings in some jurisdictions). Because the property tax is used to finance education the taxing jurisdiction frequently will attempt to achieve low tax rates by maintaining a high taxable property value per student. Singly and in combination these incentives are detrimental to intensive land use.*

Leap-frogging developments require public improvements and services, generally at a higher per unit cost. If local public transit lines are not extended to the new areas, residents must rely on their own automobiles—travelling longer distances to work and to shop. Water systems, other utilities and sanitation facilities—all of which necessitate heavy capital outlays—must be extended or installed. Since such services are most economical when provided in a compact area to a large number of individuals, it seems likely that these newer, more remote, areas of settlement will incur, at least initially, relatively high unit costs.

Consequences of Changing to Site Value Taxation

Changing the present use of the property tax—a tax of generally equal rates on both land and improvements—to a site value levy—a differentially higher tax on land—can be expected to alter individual decisions about the "most desirable" use of specific parcels of land.

Land use. The present property tax is applied to buildings and improvements, while the site value tax either applies only to land or taxes the buildings and improvements at more favorable rates than land. Therefore, a changeover to the site value tax should provide an incentive—or reduce the present disincentive—to improve and build structures. The present property tax structure discourages the construction of buildings and leads to less intensive use of land (fewer or smaller buildings per acre). A shift to a site value system (or to any plan which taxes new buildings less than they are now taxed) would result in more intensive use of land.

Stock of housing. A change from the property tax to a site value levy may encourage building and improvements, but it will not necessarily result in a large supply of all types of building. In particular, the effects of site value taxation on the stock of low- and medium-priced housing are not clear-cut.

Undoubtedly the present property tax discourages rehabilitation and improvement of existing structures. Higher assessments or simply the fear of future higher assessments are a retarding factor. The

checked. This practice creates a strong local bias to underassess land; which in turn tends, through its direct effect on landowner incentives, to keep land from serving the needs of the median consumer."[20]

*Mason Gaffney has a thorough explanation of the interactions among the tendencies for the property tax to discourage improvements, to encourage speculation, and to encourage fiscal zoning.[21]

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slums and ghettos of major cities are classic examples. Yet, replacing the property tax with a site value levy provides no guarantee that more low- or middle-income housing will actually be produced. Higher taxes on land and lower taxes on improvements will be a desirable stimulus, but the incentive toward the highest and best use will mean more intensive use of existing land. The financial pressures of site value taxation will not distinguish between low-rent housing and urban slums. Rather, both will be pushed into more intensive use with a possible increase in congestion, greater use of vertical rather than horizontal structures and fewer open space areas.

It would be too easy, however, to overdraw these arguments. For example, it is impossible to maintain that the present property tax has led to preservation of just the right socially desirable areas. The areas that are preserved are more the result of accident than of plan. If the goal is preservation of open space, it seems clear that the necessary and appropriate device is intentional planning of land use, not an unneutral fiscal instrument. Nor is congestion necessarily increased just because more taller buildings are constructed, especially if more space is allowed per inhabitant.

It seems likely that more homes will be built and existing residences rehabilitated and improved under the conventional property tax. Especially in the fringe areas, where land is held presently in low-intensity use, it seems likely that lower taxes on improvements would lead to conversion of such spaces into additional housing and shopping center areas. However, the central cities probably would still face a problem of providing adequate low- and middle-income housing.

Practical Limitations

Potential opposition. Although the theoretical case for site value taxation is indeed strong, any major institutional tax change must be expected to encounter practical obstacles. This is certainly the case with site value taxation.

As with other proposed tax changes, opposition to the site value system comes from those who believe their tax liabilities will increase and those who believe they will suffer capital losses. The two groups whose interests would most obviously be affected are land-speculators and farmers. These groups present formidable political opposition.

The prospect of a shift to site value taxation rouses misgivings among others as well. On the face of it, site value taxation discriminates in favor of improvements and against land. To the average citizen such discrimination flies in the face of tax equity, and he remains skeptical. To business, this tax opens the prospect of property classification. Still others retain the belief that buildings give rise to social costs and the need for governmental services and therefore should continue to bear a major share of the property tax.

Revenue adequacy. A very relevant concern about site value taxation is whether it can provide sufficient revenues to replace some $40 billion now derived from real estate taxes. Here the evidence is conflicting. Shifting the entire burden of the real estate tax from buildings to land would initially require at least doubling—if not tripling—the rate to maintain the same flow of revenue from the property tax. The political feasibility of such a dramatic rate increase is questionable, despite the fact that the increased tax on land would be offset by a like reduction in its market value. Proponents of site value taxation contend, however, that rates would not need to be raised quite so much, because the taxable value of land, which is generally underassessed under the present property tax system, would be raised to a more realistic level. Furthermore, site value taxation would encourage more rapid development and increasing demands for land, which, in the long run, would raise land values and therefore the tax base.

Legal restrictions.* To use the site value tax as only a partial replacement for real estate taxes on improvements—a step that would certainly defuse the revenue-adequacy concern—would probably encounter legal restrictions. Constitutional requirements of uniformity probably would prevent exemption of buildings in 16 States, while the constitutional issue is unclear in 13 others. To overcome these restrictions would take time. Additional obstacles to higher land taxes could come in the form of State restrictions on property tax rates, the limitations imposed on debt service tax levies and the limitations of indebtedness to a percentage of the local assessed values. Clearly, less restrictive limitations would have to be enacted before site value taxation could be widely adopted.

Assessment administration. Site value taxation puts a premium on equitable assessment, but in this country underassessment and inequitable assessment are prevalent. Further there are fewer sales or rentals of unimproved sites than of improved sites—and market transactions are a test of assessment quality. Site value would have to be derived from the sale of improved sites with the depreciated replacement cost of the improvement factored out to leave a land value residual. This would place a premium on well trained, experienced assessors, one of the biggest gaps in the current assessment process.

*See Chapter VII, p. 86 ff., and Appendix G for more details on these matters.

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Evaluation

The present property tax applied at generally equal rates to both land and improvements results in less than optimal use of land. As a tax on improvements, it retards rehabilitation and discourages intensive use of the land. A site value tax would remove the financial deterrent toward rehabilitation, stimulate redevelopment and foster more efficient land-use patterns. While not a panacea for all urban ills and certainly not a solution to all the problems it has been alleged to mitigate or correct, site value taxation would not deter efficient land use and would become particularly attractive when coupled with adequate zoning and land-use controls.

Yet, site value taxation would constitute a major change in the institutional framework for financing local government. The empirical evidence from experiments in this country and others abroad—though not always in a pure form—is scanty and generally inconclusive. The obstacles to its enactment and adoption in a widespread fashion appear formidable at present.* As such, site value taxation seems likely to remain, for the foreseeable future at least, an untried tax instrument, though one that possesses an inherent appeal.

General Conclusions

Reform proposals such as more uniform assessment, classification of property, statewide property taxation, and site value taxation do not hold forth much promise of general property tax relief. While each of these proposals deserves consideration as a means for strengthening the property tax and making it more equitable, their main effect, if adopted, would be to shift property tax burdens rather than to provide general property tax relief. Tax classification does not hold forth much promise of general property tax relief although it must be admitted that a classified property tax can be designed to "hit business" harder than residential or farm property.

*For example, the New Jersey Tax Policy Committee states ". . . a shift to site value taxation is not acceptable at this time for purpose of general application." The Committee further recommended that major urban core municipalities should be permitted the option of site value taxation with improvements being taxed at half the land values.[22]

FOOTNOTES

[1]ACIR, *The Role of the States in Strengthening the Property Tax* (A-17, June 1963).

[2]U.S. Bureau of the Census, Census of Governments 1967, Vol. 2, *Taxable Property Values* (Washington: G.P.O., 1969), Table 9.

[3]Oliver Oldman and Henry Aaron, "Assessment-Sales Ratios Under the Boston Property Tax," *National Tax Journal*, Vol. XVIII, No. 1. March, 1965.

[4]Robert E. Tomasson, "840,000 Parcels Recorded by Hand," *New York Times*, February 22, 1973, p. 35.

[5]J. E. Luckett, "The Administrator's Reponse to Full Value Assessment," in *1966 Proceedings . . . National Tax Association* (Columbus, Ohio: 1967), p. 190.

[6]Real Estate Research Corporation, *Report on 1971 Activities and Plans for Future Improvements, Prepared for County Assessor P. J. Cullerton*, County of Cook (Chicago: May 1972), pp. 23 and 24.

[7]*Op. cit.*, p. 43.

[8]New Jersey Tax Policy Committee, *Summary Report* (Trenton: February 23, 1972).

[9]New Jersey Tax Policy Committee, *Report, Part II, The Property Tax* (Trenton: February 23, 1971), p. 27

[10]*Additional Statement by Senator J. Edward Crabiel on the Recommendations of the New Jersey Tax Policy Committee*, April 18, 1972. This is an expansion of Senator Crabiel's formal statement published as part of *Summary Report* of the New Jersey Tax Policy Committee, p. 57.

[11]*Constitution of Arizona*, Art. IX, Sec. 1.

[12]*Louisville & Nashville R. R. vs. Public Service Commission* and *Southern Ry. vs. Clement*. See W. R. Snodgrass and William J. Reinhart, "The Classification Issue in Tennessee", in *The Property Tax: Problems and Potentials* (Princeton: Tax Institute of America, 1967).

[13]Commonwealth of Massachusetts, *First Report of the Special Commission to Develop a Master Tax Plan Relative to Constitutional Limits on the Tax Power* (Senate, No. 126, September 1969). Massachusetts Taxpayers Foundation, *The Proposed Property Tax Classification Amendment* (Boston: August 1970), p. 11. Newhouse, *Constitutional Uniformity and Equality in State Taxation* (Ann Arbor: University of Michigan Law School, 1959).

[14]Rolland H. Hatfield, "Minnesota's Experience with Classification," *The Property Tax: Problems and Potentials* (Princeton: Tax Institute of America, 1967), p. 241.

[15]University of Arkansas, College of Business Administration, Industrial Research and Extension Center, *Status of State Level General Property Taxes, 1972* (Little Rock: June, 1972, Publication 1-7).

[16]Federation of Tax Administrators, *School Finance, the Property Tax and the Courts* (Chicago: March 15, 1972, RM-425), p. 25. This paper contains an excellent analysis of the recent school finance cases and their implications for property taxation.

[17]Thomas LaVerne, "Toward a State-Federal Solution for Financing Schools," in *Washington* (Washington, D.C.: National Legislative Conference, Vol. 1., No. 3., March 17, 1972) p. 2.

[18]California State Board of Equalization, "Proposals for Statewide Property Taxes for Support of the Public School System," Memorandum prepared by the Division of Property Taxes, April 24, 1971, p. 1.

[19]Ronald B. Welch, *Property Tax Implications of the Serrano-Type Decisions*, presented before the 40th Annual Meeting of the National Association of Tax Administrators (St. Paul: June 13, 1972), p. 9.

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[20]Mason Gaffney, "Tax Reform to Release Land," Marion Clawson (ed.), *Modernizing Urban Land Policy* (Johns Hopkins Press for Resources for the Future, 1973).

[21]*Ibid.*

[22]New Jersey Tax Policy Committee, *Report 2, The Property Tax* (Trenton: February 23, 1972), p. 29.

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chapter VII

pitfalls for general property tax relief

An initial assumption by many observers is that property tax relief must be a good thing, in and of itself. But, could the act of reducing the property levy raise some fundamental problems? Would economic and political "fallout" result from a sudden and general reduction in property taxes?

This chapter looks at three major "pitfalls" in property tax relief: economic windfalls to some investors at the expense of others; intergovernmental "waves" caused by property tax reduction; and some legal obstacles to achieving property tax relief.

The Economic "Windfall" Issue

Investors choose between alternative possible investments primarily on the basis of the size of the return they can expect. Because it bears on the amount of return, investors take into account different taxes or different tax rates affecting the potential investment.

A sudden change in property taxes will affect how investors view the market and could result in some dramatic economic effects.

Some Examples

Land. Suppose an investor has $100,000 and the choice between investing in land that can then be rented out for $10,000 per year and investing in a business that would yield 10 percent per year on his investment. Since $10,000 is 10 percent of $100,000 he would receive the same income from rent as he would from the other business. But if the parcel of land is subject to a $2,000 annual tax, his return would be $8,000 per year. If the investor had to pay more than $80,000 for this land, he would not buy it since he would receive more from investing in the other business. Thus, the owner of land that sells for $100,000 when there is no tax, will find that land will sell for only $80,000 after a $2,000 tax is imposed. He is thus $20,000 worse off. Conversely, a man who owns land with a market value of $80,000 when subject to a $2,000 tax, will be able to sell it for $100,000 if the tax were abolished and thus would be wealthier by $20,000.

It might appear that if a property tax levy is imposed and repealed after several years, all would be as it was before imposition. This would be basically true if the same individual who originally owned the land still owned it, but few parcels of land would still be owned by the same individuals or even the same families that owned them when property taxes were first imposed. Individuals who owned the land at the time of each increase in taxes would be the losers and those who own the land when the tax is reduced would derive the gain.

Rental Housing. The effect of the sudden removal of the tax on residential property would be similar

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but more complicated. As Chapter IV indicated, the property tax has the effect of reducing the supply of housing, raising the rent, and reducing the return to all capital (not simply to the capital invested in buildings). But a sudden reduction in the property tax—similar to the effect of the reduction of the property tax on land—would bring instant capital gains to the particular owners of the property experiencing the change in the tax. The owners would have lower costs because of the property tax reduction, but they would still receive the same rental payments because neither the number of people wanting to rent, nor the price they would be willing to pay, nor the number of apartments and houses immediately available has changed because of the tax. Thus the landlords would receive a larger net income than before and the tenants would not immediately benefit. Even an attempt to require landlords to pass on the tax reductions to tenants in the form of lower rents probably would not bring relief. When confronted with lower rents, tenants would want to increase their consumption of housing and would bid up rents until they were paying the same rent as before.

Eventually the supply of housing would change. Investors who before the tax reduction would have invested in some other sector would now invest in residential building because the costs would be lower. The greater investment would increase the supply of housing. The rental price of housing would be bid down by competition among all the owners of apartments, old and new, and tenants would receive genuine relief without rent control.

In the interval, however, those who happened to own buildings at the time of the property tax reduction would benefit by the amount of the property tax reduction. This is similar to the land case. But annual income in the case of land would increase permanently by the amount of the tax, because the amount of land is fixed and the supply would not be altered by the change in taxes. In the case of buildings, however, this gain would be temporary for the interval between the repeal of the tax and the time the supply of housing increases to its new level. After that, the reduction in annual rental income resulting from the increase in the supply of housing would partially offset the gain. This difference in income would also affect the price of the building if the owner should sell it after the reduction in taxes but before the increase in the supply of housing.

Homeowners. Homeowners would experience a sudden increase in the value of their homes as more people would be buying homes; and those who would have purchased them in any case would be buying larger ones because they no longer would have to pay the property tax. People who owned their homes before the property tax reduction would benefit from the reduction, while those who had been renting and now purchased their home would not benefit. The person who owned his home before the tax reduction has the advantage of lower tax payments with no offsetting disadvantage. The person who purchases a home after the decrease would also pay these lower taxes, but the price he pays for the house would have increased by an amount to offset this advantage. After several years, however, the supply of homes would increase, and the advantage of owning a home at the time of the tax reduction would gradually disappear (although the advantage of owning land at the time would not disappear).

The Tax Freeze Approach

How can a State provide property tax relief and still avoid the economic windfalls that result from sudden changes in the level of property taxation? Gradual tax reduction is not the answer—if the decision is firm—for it is the announcement of the reduction (whether immediate or as a phase-out) that creates economic windfalls.

One suggested approach is to declare a property tax freeze on the amount that each piece of property would pay. New buildings and improvements of old ones would not be taxed. Old buildings would continue to be taxed the same amount, even if they deteriorated—indeed, even if they no longer existed. Vacant land would simply have the same annual tax payment year after year.

The amount of taxes to be paid would no longer be affected by individual behavior, so the amount of property tax would cease to be the basis for decisions. Residential and factory construction and the course of urban development would take place as if the tax did not exist.

Revenue Implications. There would be no need for additional taxes immediately after the freeze because the frozen taxes would produce the same amount of revenue. But the growth in public needs accompanied by inflation would require additional funds in subsequent years. This would amount to a gradual phase-out of the property tax as a source of local revenue—but an immediate end of the property tax as a discourager of housing and urban economic development.

The Capital Gains Tax Approach

Another approach to avoid unwarranted windfalls for certain property owners is for the State to levy a tax on capital gains derived from realized increases in the value of real estate. (The proceeds of the State levy could be earmarked for return to the municipality in which the property was located if that were

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deemed advisable by the legislature.) If the tax rate were set at 90 percent, the community could recover most of the benefit obtained by those who happened to be property owners at the time of the tax decrease and who subsequently sold their properties. If the tax rate were set at 100 percent, however, the owner would not care about making a profit when he subsequently sold the property. One problem with the capital gains tax is that it may create a tremendous incentive not to sell the property and thus "lock in" present ownership. Furthermore, the tax on realized capital gains would have to be permanent and apply to all future sales. Otherwise, it would be possible to avoid the tax by making a subterfuge sale prior to the genuine transaction.

Conclusion

Because the property tax is deeply entrenched in the capital structure, the economic consequences of a drastic reduction, say 50 percent for all classes of property, should be taken into account when property tax relief is proposed. Owners of land, whether occupied or vacant, would reap large gains. Owners of houses and other buildings would experience somewhat smaller gains. Reduction of the tax would spur an increase in construction of houses and other buildings, eventually bringing lower rents to tenants (both residential and commercial) and making it possible for prospective homeowners to buy larger or better homes.

Windfall capital gains such as those described would occur only if people believe the tax reduction really is permanent. Furthermore, any reduction in the level of public services important to property owners or potential buyers accompanying the tax reduction probably would offset the gain and also could cause the property to lose value.

The Fiscal "Windfall" Issue

A sudden reduction in local property taxes for schools would ease pressure from the school levy on the prime source of city and county revenue, and make the property tax more available to meet urgent local nonschool needs.

Indeed, the prospect of a fiscal windfall for cities and counties partly motivated ACIR to recommend in 1969 that each State adopt the long-range objective of assuming substantially all responsibility for financing local schools.[1] The Commission's position in *State Aid to Local Government*—State takeover to equalize school financing with benefits to local government as a by-product—contrasts with current interest in property tax relief *per se*. But, if the purpose of shifting all or part of the financial responsibility for schools to the State *is* property tax relief, precautions must be taken to prevent cities and counties from raising their property tax rates to soak up the property tax that was intended to be relieved.

A Minnesota attempt to provide property tax relief backfired because of the "windfall" problem. And a tax reform proposal in New Jersey took this problem into account. And, most recently, California used the idea in its tax relief act of 1972.

The Minnesota Experience

The Minnesota Property Tax Reform and Relief Act of 1967 levied a new State sales tax to finance a program to ease the fiscal pressure on localities, relieve agricultural and residential properties of a substantial portion of the local property tax and replace local revenue lost by the repeal of the tax on business personalty.

In 1970 the Minnesota State Planning Agency published a report which showed that initially effective property tax rates were reduced but the rates soon rose again. To test whether the additional funds to local governments had substituted for local property tax revenues, the study compared actual taxes and computed or "expected" taxes for each municipality with a population of at least 2,500 taking into account the effect of inflation on governmental costs. The test revealed that "about 60 percent of the municipalities had tax levies in 1970 that were at least 90 percent as large as 'would have been expected' without the relief act had the trend of tax levies from 1960-67 continued. Nearly 30 percent appeared to be levying as much or more property taxes in 1970 as was projected for 1970 in the absence of the Act. In only 20 [of 102] municipalities do the ratios appear such that one might say that the localities used all or most of the funds for tax reduction."[2]

In 1971, the Minnesota legislature again enacted a property tax relief measure. This time, it laid down stringent rules on local budget and tax levy increases, recognizing that such action was essential to guarantee relief.

The New Jersey Proposal

The New Jersey Tax Policy Committee's recommendations for restructuring the State-local tax system to provide massive relief to property taxpayers (See page 62) also dealt with "the problem of preventing an erosion of the benefits through future escalation of the rates." New Jersey, the Committee noted, is one of the seven States, all in the Northeast, with no property tax limits whatever. While it recognized that property tax limits are ineffective in curtailing overall government spending, the Committee concluded that the limits have been successful in diverting pressure for increased revenues to nonproperty tax sources. Therefore, the Committee recommended stringent property tax limits.[3] As

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noted earlier, the recommendations were rejected by the legislature.

The California Approach

California's experience in 1972 is another example of the competing needs in any major property tax relief proposal.

Initially, Governor Reagan proposed a major reform program calling for a cut in school property tax levies by $650 million and a two-year moratorium on raising the rates. The County Supervisors Association of California proposed an alternative tax reform package without the restriction.

A massive tax relief measure was adopted, including a compromise on this issue which: limits tax rates for cities and special districts to their 1972-73 rate, with a formula to permit increases tied to growth in assessed values or population and price level; and restricts counties to either their 1971-72 or 1972-3 rates.

Summary

A program to relieve the burden from property tax on schools will yield a financial windfall. With the heavy fiscal pressures on local governments increasing rather than decreasing, the temptation will be great for local government to cash in on it. Therefore, before the relief program is enacted, a State must clarify its objectives: to guarantee property tax relief by putting shackles on local government fiscal powers; or to allow local governments to take advantage of the opportunity and use up part or all of their new-found property tax capacity.

Legal Obstacles to Property Tax Relief Proposals*

So far, this chapter has examined the economic and political pitfalls in major property tax relief programs. This section deals with the legal obstacles.

Do State constitutions and statutes prohibit the State from stopping local governments from using property tax revenues for school financing if they continue to use these revenues for other purposes? What about a State residential property tax for this purpose? Are there legal obstacles to using income tax credits or rebates for property tax relief to low-income persons—the circuit breaker idea? And what about taxing land values at differential rates?

In evaluating the proposed limitations on the use of property tax resources, it is important to keep in mind: the function the local property tax performs in the United States tax system; the purpose of constitutional restrictions on legislative powers to differentiate among classes of property or classes of taxpayers; and the objectives sought in proposals to exclude local property taxation and State taxation of residential property as sources of local school operating financing.

The purpose of local property taxation has been, from the beginning, to finance the provision of local government services for which the individual consumer could not be charged—such as police and fire protection—or whose provision to all was felt to be required by the public interest regardless of individual demand or choice—such as education.

Constitutional uniformity provisions were intended to assure that the burden of these costs would be distributed equitably, in relation to their resources, among the persons who benefited from the services provided. Although the rigidity of some of these limitations as interpreted by the courts has prevented differentiations which would have been reasonable means to achieve reasonable objectives of tax policy, the limits have been and still are used to prevent discriminations which many would regard as unjust. At the same time, constitutional uniformity provisions have failed to prevent serious inequities in the distribution of the burden of educational and other costs.

The question to be asked is whether the exclusion of local and State taxation of residential property as means of school financing is the proper method of dealing with these inequities—in other words, whether the proposed cure would be worse than the disease.

Owners and occupants of residential property derive the most immediate private benefit from local educational services. Assuming that education is a general good which diffuses benefits throughout society including the industrial and commercial sector as well as the population of individual residents, is there any justification for giving special relief to the residential taxpayer who receives the bulk of whatever private benefit educational expenditure entails?

In the general discussion of constitutional and statutory problems of making the property tax more discriminating particular reference is made to Alabama, California, Illinois, Kansas, Massachusetts and New York.*

Because only six States were examined in any detail, the tentative conclusions set forth here are necessarily subject to revision.

*This section is derived from a report prepared for ACIR by Oliver Oldman, Charles K. Cobb, Jr., and Paul W. Oosterbuis, Harvard University Law School.

*A more detailed discussion of the doctrine in each of those States is given in Appendices G-1 through G-6. The Appendix on Massachusetts is more complete than the others and includes some numerical examples.

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Conclusions

Exempting residential property. At least 16 States would have to amend their constitutions in order to exempt residential real property from State-local taxation for public elementary and secondary schools. The constitutions of these States allow neither exemptions not specified in their constitutions nor real property classification under which residential property could be placed in a separate class and taxed at a zero rate.

Arkansas	Illinois	Ohio
California	Indiana	South Carolina
Colorado	Missouri	Tennessee
Florida	Nebraska	Texas
Georgia	Nevada	Utah
	West Virginia	

Five additional States allow exemptions beyond those specified by their constitutions, but subject any additional exemptions to restrictions tighter than a test of reasonableness. In Massachusetts, it would appear that a constitutional amendment would be required to exempt residential property. In the other four—Idaho, Kansas, Minnesota, and New Hampshire—it is at least doubtful that residential real property could be exempt without constitutional amendment. In Minnesota, however, the permitted categories of classification may include residential property taxed at a zero rate.

Site value taxation. The 16 States listed above would also require a constitutional amendment in order to adopt either (1) site value taxation, that is, to tax land alone or, equivalently, to exempt improvements entirely, or (2) differential taxation of land and improvements where the rates on each are greater than zero.

The five additional States offer the same uncertainties about site value taxation and differential taxation of land and improvements as were noted with respect to exempting residential property.

Eight additional States which do not permit exemptions not specified in their constitutions, but do permit classification, may or may not allow site value taxation. Even where they do not they may allow differential taxation of land and improvements. These are: Arizona, Kentucky, Louisiana, Montana, New Mexico, North Carolina, Oklahoma and Virginia.

Low-income property tax credit. A refundable credit against income tax liability for excessive property taxes paid by low-income persons would run into far fewer constitutional obstacles than the proposals noted above. Although there is apparently no State for which it could confidently be asserted that a constitutional amendment would be required to adopt such a credit, there are several in which there is doubt—even serious doubt.

Problems in Limiting Property Tax Use for Education to State Taxation of Nonresidential Property

Constitutional problems in limiting local property tax use to noneducational purposes. None of the States under study has any apparent constitutional obstacle to limiting the use of the local property tax to the financing of functions other than education.

In none of the States studied does the constitution place primary responsibility for public school finance on the municipalities. Under the Illinois, Kansas, and New York constitutions the State has the primary responsibility for financing public education. In California, Kansas and New York the municipalities—but not necessarily the school districts—can levy nonproperty taxes with legislative authorization. Of the States studied, only Massachusetts does not authorize municipalities to levy nonproperty taxes or empower the legislature to authorize municipalities to levy taxes.

Statutory and practical problems in limiting property tax use to noneducational purposes. In order to finance local education without local property tax resources—the only source of direct local tax revenues permitted under the Massachusetts Constitution—it is estimated that the State would have to have raised close to $500 million from additional State taxes in fiscal 1969. At present, Massachusetts finances about 35 percent of local school expenditure by distributions of State aid. Other States would have a smaller gap to make up, and in some States the municipalities could be permitted to levy their own taxes (although allowing municipal nonproperty tax levies would not necessarily promote equality of resources). Quantitative studies would have to be made to determine whether the combination of State aid and local nonproperty tax revenues would be adequate. Kansas law at present forbids municipalities to levy excise, sales, use, or income taxes, but this bar could be removed by legislation.

Withdrawal of local sources of revenue from the financing of local education might jeopardize local government control over educational spending and policy.

Constitutional problems of uniformity in establishing a State property tax on nonresidential property only. Thirty-six of the States have constitutional provisions requiring uniformity in property taxation. A property tax uniformity provision may effectively limit the powers of the State legislature by requiring one or more of the following:

(1) All property to be taxed, with no exemptions

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Table 30

Summary of State Constitutional Property Tax Uniformity Limitations, by Type, As Applied to Real Property

1. States requiring fixed proportional rate, universality, and uniform rate for all classes of property (12):

Arkansas	West Virginia
California	Florida
Illinois	Indiana
Nebraska	Nevada
Ohio	South Carolina
Texas	Utah

2. States requiring fixed proportional rate and universality, but not uniform rate (7):

Colorado	Montana	New Mexico
Georgia		Missouri
Louisiana		Tennessee

3. States requiring fixed proportional rate and uniform rate, but not universality (10):

Maine	Wisconsin
Alaska	Mississippi
Massachusetts	Kansas
New Hampshire	Idaho
New Jersey	Wyoming

4. States requiring universality, but neither fixed proportional nor uniform rate (4):

Virginia	North Carolina
Arizona	Kentucky

5. States requiring fixed proportional rate, but neither universality, nor uniform rate (3):

Alabama	Maryland	Pennsylvania

6. States requiring neither fixed proportional rate, nor universality, nor uniform rate (12):

Delaware	Rhode Island
Minnesota	Vermont
Oklahoma*	Connecticut
Oregon	Iowa
North Dakota	New York
South Dakota	Hawaii

7. States requiring uniform rate and universality, but not fixed proportional rates (2):

Michigan	Washington

8. States requiring a uniform rate but neither universality nor a fixed proportional rate: None

*Exemptions allowed only for property subjected to *in lieu* tax.

Sources: Appendix G-7, revised to reflect recent constitutional amendments in Alabama and Tennessee.

Commonwealth of Massachusetts, *First Report of the Special Commission to Develop a Master Tax Plan Relative to Constitutional Limits on the Tax Power* (Senate, No. 126, September 1969).

Newhouse, *Constitutional Uniformity and Equality in State Taxation* (Ann Arbor: University of Michigan Law School, 1959).

other than those defined by the constitution;

(2) Property taxes to be levied at a fixed proportional rate; or

(3) Property of all classes to be taxed at the same rate (or in some cases, requiring only that all property of the same class be taxed at the same rate, allowing different rates to be used for different classes of property).

The distribution of these components among the constitutional provisions of the 50 States is summarized in Table 30. Despite the expectation that a rate uniform for all classes of property must be a fixed proportional rate, two States require a uniform rate for all classes of property but not a fixed proportional rate.

Of immediate concern to this investigation are the 24 States that require a uniform rate of tax on all classes of property for which a departure is not expressly authorized, and the 10 other States which preclude any exemptions other than those authorized by the constitution. Since an exemption can be thought of as the taxation of property at a zero rate, it might be supposed that the requirement of a uniform rate would preclude exemptions; however, there are 11 States whose uniformity provisions effectively prescribe a uniform rate for all classes of property but do not prohibit exemptions.

Three theories. From this framework of constitutional provisions, three theories for upholding a property tax on nonresidential property arise: first, an exemption to residential property could be created within a general property tax system; second, a limited or specific property tax on non-residential property could be established; and third, residential property could be classified separately from other types of property and then assessed or taxed at a zero rate. The potential of each of these theories in the various States was examined in detail and is discussed in the three sections that follow.

Can residential property be exempted from a general State property tax? A total of 24 States prohibit property tax exemptions otherwise than as specifically allowed by their constitutions *(see Appendix G-7)*. In most cases the exemptions specifically allowed relate to governmental or charitable property. In these States residential property could not be exempted from a general State property tax without a constitutional amendment.

For example, the exemption of residential property from a general State property tax would be prohibited by the California Constitution and by both the 1870 and 1970 Constitutions of Illinois. Although Massachusetts is listed among the States that allow exemptions, the limited kinds of exemptions that have been granted by the Massachusetts legislature give little ground for believing that a general exemp-

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tion for residential property would be valid under the State constitutional uniformity provision. The validity of an exemption for residential property is doubtful under the Kansas Constitution, but more likely in Alabama.

There seems to be no obstacle to exemption of residential property from a general State property tax in any of the 27 States that allow exemptions subject only to the "reasonable basis" requirement of the U.S. Constitution's equal protection clause (see Appendix G-8) and any similar State constitutional provisions. But whether a reasonable and balanced tax structure would result from the adjustments that would have to made in the rest of the State tax system would remain to be considered.

Can a limited property tax be established? In principle, the validity of a limited property tax on nonresidential property is decided on the same basis as the validity of the exemption of residential property from a general property tax. It appears that in Kansas a limited property tax would not be valid, despite the possible validity of an exemption for residential property; in each of the other States studied the conclusion reached regarding the validity of a limited property tax on nonresidential property is the same as the conclusion reached regarding the validity of an exemption for residential property. Thus, in 21 States such a tax probably could be established; in 24 States the tax would be unconstitutional; and in five States the matter is uncertain.

Can residential property be classified separately within a general property tax system and be valued or taxed at a zero rate? Twenty-six States have uniformity provisions which effectively require that all classes of property be taxed at the same rate, excepting only as provided in the constitution itself. In these States, it would not be possible to classify residential property separately and tax it at a zero rate. All of the six States discussed in the separate appendices, except New York, are among those requiring a uniform rate of property taxation.

Twenty-four States, including 10 that forbid nonspecified exemptions, allow rate differentiation among classes of property. The New York court, for example, has ruled that even property taxes need only be uniform within classes. The only limitations are those imposed by the equal protection clauses of the Federal and New York constitutions. The only serious question that could arise in those States is the following: if the State constitution permits reasonable classification of property for purposes of rate differentiation, would complete exemption of residential property be reasonable under the equal protection clauses? The States selected for analysis furnish no decisions that approach this question. But it would be difficult to read Federal equal protection cases on the property tax as forbidding complete exemption of residential property *(see Appendix G-8)*.

Does a State property tax on nonresidential property preclude a local tax on such property? Although a State in which property tax rate differentiation is permitted could in principle impose a State property tax on nonresidential property in addition to the local tax on such property, the validity of such an arrangement would depend on whether or not the overall differential burden on nonresidential property were reasonable under the Federal and State equal protection requirements.

Since the continued local taxation of residential property in such a State would tend to equalize tax burdens on residential and nonresidential property, it does not seem likely that a bar on the local taxation of nonresidential property resulting from the imposition of a State tax would deprive local governments of their power to tax residential property.

Practical and statutory problems in a State nonresidential property tax. The possible alternatives for the assessment of nonresidential property for a State property tax are as follows:

- Assess all property locally, as at present in most States, and apply equalizing ratios. Establish special new uniform criteria for local assessment of nonresidential property.
- Establish special State assessment of nonresidential property.

Equity as well as constitutional requirements of a uniform effective proportional rate on all property of the same class argue strongly in favor of centralized assessment of property subject to a State property tax. The need for different criteria from those used for residential property may not be a serious obstacle, since even under uniform assessment for all property it is difficult to apply the market value standards commonly used for residential property to many types of business property. The application of different assessing methods to residential as contrasted to industrial and commercial property, would not be more troublesome under a State property tax than under local property taxation.

In any of the 24 States whose constitutions require the rate of property taxation to be uniform within each taxing district, the values of different classes of property and particular properties vary both in the average ratio of assessments to market values and in the degree of uniformity achieved within each community; hence it would be difficult to achieve a uniform effective rate in a taxing district comprising the entire State. Perhaps in most States

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that already have functioning limited State property taxes, comprehensive changes in valuation methods and procedures would be necessary.

Purely from the point of view of local financing of local government expenditures, limiting the requirement of a uniform effective rate to the local taxing district does not give rise to serious inequities. Only with the introduction of State aid distribution formulas designed to promote equalization of property tax resources among communities have interlocal differences become important. The introduction of statewide property taxation would greatly increase the stakes in local variation in assessment ratios and would make it necessary for the State to make a substantial investment in improved supervision of local assessment procedures.

If a State cannot constitutionally establish a State nonresidential property tax, are there any potential equivalent alternatives? With very few exceptions—none in the six cases selected for study—even the strictest State constitutional uniformity provisions apply only to property taxes. In California, Illinois and Massachusetts, the three States under study that have extensive doctrine on the distinction between property and nonproperty taxes, the court cases give little grounds for believing that a State tax on nonresidential property would not be regarded as a property tax. An excise or privilege tax levied on corporations and measured by their property would not reach all of a State's nonresidential property and would not be an equivalent alternative.

Constitutional Problems in Limiting Property Tax Use to Taxation of Land Only

Since the basic principle of the property tax uniformity provision is a general prohibition against differentiation of any but the most limited kinds, differentiation between land and improvements is subject to the same constitutional limitations as differentiation between residential and other kinds of property. Among the States under study, therefore, only New York and perhaps Alabama could levy a site value tax; the other States could not.

Problems With Obtaining Property Tax Relief Through An Income Tax Credit to Low-Income Taxpayers

Constitutional problems with property tax uniformity provisions. As of 1973 forty-seven States offered some type of low-income relief under their property taxes, but mainly to persons who were elderly, widowed, or disabled. *(See S.1281, cited in full in Appendix G-5 on Massachusetts; and also Chapter V.)* California, Massachusetts and New York, of the States under study, were among those giving low-income relief against property taxes of the elderly. The validity of these arrangements, however, apparently does not imply that property tax relief for all low-income taxpayers would be valid; the study raises serious doubts on this point for California, Illinois and Kansas.

Property tax uniformity provisions are not violated by a credit against income tax. It is the property tax liability which must be proportional under uniformity provisions. But if a relief not proportional to both the local tax rate and the local assessed value were treated as part of the property tax, it would risk violating constitutional requirements of a uniform effective rate within the taxing district. *(See Appendix G-3, III.C, for example.)* From the point of view of the local governments an income tax credit would be preferable to an abatement of property tax; the costs of a credit are borne by income taxpayers throughout the State, while the costs of abatement (where locally financed) are borne by other property taxpayers in the same community.

Constitutional problems with income tax provisions. Massachusetts and Illinois have constitutional prohibitions against the levy of a graduated income tax. In both these States making the credit part of the income tax system would risk violating the requirement of a proportional rate. In Massachusetts the credit would also risk violating the requirement that the rate on each class of income be uniform throughout the Commonwealth. In both States treating the relief as part of the property tax would risk violating property tax uniformity requirements. In Alabama, California, Kansas and New York the credit would be valid if it meets the test of reasonableness under equal protection requirements.

FOOTNOTES

[1]ACIR, *State Aid to Local Government* (Washington: GPO, 1969), p. 15.

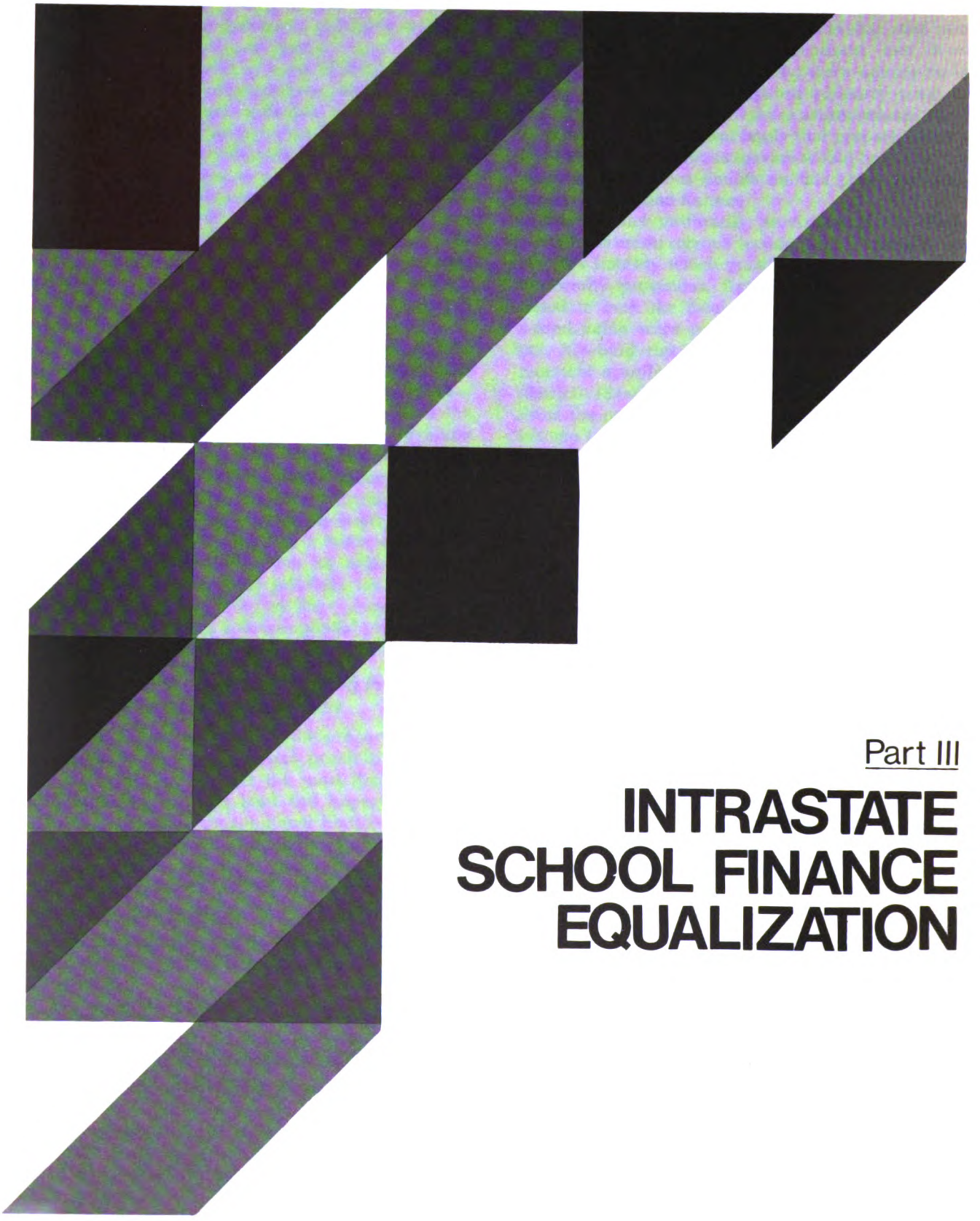
[2]Minnesota State Planning Agency, *An Analysis of the Effects of the Minnesota Property Tax Reform and Relief Act on the Financial Positions of Local Governments* (St. Paul: 1970), *passim.*

[3]New Jersey Tax Policy Committee, *Summary Report* (Trenton: 1972), p. 26.

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Part III

INTRASTATE SCHOOL FINANCE EQUALIZATION

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chapter VIII

scope and summary of findings

The principle that the quality of a student's public elementary and secondary education should not be dependent on the wealth of his parents and neighbors stands out as a sound objective of public school finance policy on reasonableness and equity grounds. The principle is implicit in State school equalization laws.

Scope Of Analysis

This part focuses on the question of whether and to what extent additional Federal assistance is needed to help each State place its local school districts on an equal fiscal footing—an issue raised by *Serrano*-type litigation.

The Commission is aware of other recent studies of education finance such as the National Educational Finance Project funded by the U.S. Office of Education and the President's Commission on School Finance. These studies considered school finance in its broadest context and therefore properly took policy positions on such questions as the role of the Federal government in school support. Having no desire to duplicate the work of others, this Commission has devoted its study to the quest of this admittedly more narrow issue—the role of the National government with regard to intrastate equalization of school finances. In doing so the Commission neither accepts nor rejects policy recommendations on other related school finance and educational questions.

Previous Commission Studies

The Advisory Commission on Intergovernmental Relations has studied school finance both directly and indirectly in connection with its continuing concern about friction points in our federal system. The $45 billion currently devoted to school financing has a major impact on the intergovernmental fiscal system. The Commission studied the subject of school finance specifically in its report on *State Aid to Local Government*. Indeed, the first policy recommendation in that report called for State assumption of all responsibility for financing public schools in the following terms:

> In order to create a financial environment more conducive to attainment of equality of educational opportunity and to remove the massive and growing pressure of the school tax on owners of local property, the Commission recommends that each State adopt as a basic objective of its long-range State-local fiscal policy the assumption by the State of substantially all fiscal responsibility for financing local schools with opportunity for financial enrichment at the local level and assurance of retention of appropriate local policymaking authority.[1]

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In this recommendation, the Commission defined the role of the States in the intrastate school finance issue. Now, in response to President Nixon's request, the Commission examines the Federal role, if any, in helping the States discharge their school finance responsibilities.

Summary Of Major Findings

1. A major Federal educational aid program to help States finance the costs of equalizing per-pupil spending within each State cannot be justified on the grounds that States confront insurmountable fiscal burdens. Our analysis reveals that only a few States would experience fiscal difficulty in bringing per-pupil expenditures to the relatively high levels needed to comply with the "no wealth" principle enunciated first in the *Serrano* case. The great majority of States have the necessary untapped relative tax potential. New York, Vermont and Wisconsin, however, stand out as the States that would experience greatest fiscal difficulty because of their current heavy use of all State and local taxes. *(See Chapter X.)*

Prospects for easing pressures for additional school spending have now appeared. School workload will tend to ease in the future as the rapid reduction in the birthrate is reflected in lower school enrollment. The continued expansion of Federal financial assistance, including revenue sharing, to States and localities portends a further easing of fiscal pressures on States. *(See Chapter X.)*

Thus, while there may be other reasons for Federal aid to help States in reducing school spending disparities, such support is difficult to justify on the grounds that the monetary costs imposed by the court decisions or by conscious public policy constitute an insurmountable fiscal burden for more than a few States.

2. State legislatures retain wide discretion to devise a school funding system that will both serve the State's purposes and pass the test of constitutionality. The court decisions outlawing persistent school finance disparities have not declared the property tax unconstitutional nor even indicted it as an unsuitable tax. Neither have court decisions required equal dollar expenditures per pupil. The courts have recognized that State legislatures have been unwilling to offset fully the variations in local fiscal capacity with equalizing State aid dollars. Per-pupil spending is still at least twice as great at the 90th pupil percentile level as at the lowest level in half of the States. *(See Chapter IX.)*

As part of the reform of its existing school finance system, a State may confront a major new fiscal demand: that of eliminating wealth as a determinant of local per-pupil spending. Three of the four broad approaches to school finance reform—a "beefed-up" foundation program, power equalizing, and the full State funding approach—are likely to entail additional funding to assure that no existing program is cut back. The fourth—school district reorganization—would entail a constant adjustment of boundaries to preserve equal per-pupil valuation but no State financial outlay. *(See Chapter IX.)*

The cost to the States of overcoming a great portion of the impact of local fiscal disparities does not seem large when the full revenue potential of the States is considered. Raising the minimum per-pupil expenditure to the 90th percentile level would cost about $6.9 billion and draw down 27.4 percent of the estimated untapped State-local tax capacity—less in some States and more in others, of course. *(See Chapter X.)*

The actual cost in each State might entail somewhat less money because a State has several options, including school district reorganization, designed expressly to put districts on a more equal local fiscal footing and thereby ease the fiscal pressure on the State.

All but three States (New York, Vermont, and Wisconsin) could raise per-pupil spending to the 90th percentile level by using substantially less than their entire untapped relative tax capacity. The same three States would have to use all of their apparent fiscal elbow room—and more—to level up to the 90th percentile even with the addition of general revenue sharing.

One specific source of State fiscal pain to which the Federal government can minister with good effects for the States is the welfare area. For example, New York lays out 2.34 percent of its personal income to meet State-local public assistance and medicaid costs. If the National government assumed all public assistance and medicaid costs, as ACIR has recommended in its report on *State Aid to Local Government*, State and local governments in New York would get over $2 billion of fiscal relief.

Pressure on State political leadership to raise more revenue in response to expenditure demands has the positive virtue of forcing States to keep their own fiscal house in order—in the case of education, to reform property tax assessment administration and to make appropriate changes in local government structure to eliminate debilitating fragmentation. Fiscal pressure probably explains much of the move to improve property tax administration and also the reduction in the number of local school districts from about 109,000 in the 1941-42 school year to about 16,000 in the 1971-72 school year.

If schools get no more than their present share of the budget in most States over the next decade, they can do much to make their existing equalization efforts more effective. Lower rates of growth in school

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enrollment will free-up school funds for redistribution in an equalizing fashion.

3. The issue of intrastate disparities in school finance stands out as one problem of federalism that will tend to abate rather than worsen as time goes by. Thus the question confronting political leaders at all levels of government is just how long should the reform process take. *(See Chapter X.)*

Two forces are at work tending to delay State initiative on the school finance disparities issue.

Mindful of the fiscal consequences of most proposed solutions to the disparities issue the public response to a proposed State initiative on school finance is more likely to meet with overt resistance than passive acceptance. The defeat of Governor Cahill's income tax proposal in New Jersey stands out as a case of overt resistance to a proposal calling for a major departure from the status quo. The shift from local school property taxes to a statewide levy for this purpose also carries another set of controversial tax implications. The most important of these would be the demand that the States equalize property tax assessments both within and among local assessment districts with a consequent shift in burdens among property owners.

A shift toward centralized financing of schools is viewed in many quarters as a threat to local control —control of funds having traditionally served as the instrument for making educational policy. While most proposals for school finance reform have sought to accommodate the concept of local control by permitting local supplementation within limits, New York's Fleischmann Commission recommended against authority for local supplementation on the ground that it would lead ultimately to the re-creation of the school disparities State financing was designed to correct.[2] Others, including ACIR, have contended that a more centralized school financing system should not preclude local control over major aspects of education. The controversy over local control gives the upper hand to the *status quo* position on school finance because of the lack of evidence to support any other position.

Several forces at work on State governments portend a gradual lessening of inter-district school finance disparities.

By their past action, States have set a strong precedent for continuously improving the operation of their school finance systems. The improvements have resulted in part from school district consolidation and from States assuming a larger share of State-local costs. States are not likely to stop or reverse this trend.

Without any direct Federal intervention, States have made progress in reducing disparities in school spending. The trend to improved State-local finance programs is firmly established, and there is no reason to believe it will be turned around. A recent report by the National Committee for the Support of the Public Schools on the long-run progress of the States in reducing the range of expenditures shows generally a narrowing of the gap in spending on children in the high-spending districts as contrasted to children in the low-spending districts.[3]

The reduction in the number of local school systems accounts for much of the State progress in reducing disparities in local school spending. Both the opportunity to improve educational programs by school consolidation and the urge to get the most out of the educational dollar have led States to exert control over school district boundaries. State action on boundaries promotes efficiency yet permits flexibility to reflect vital local interests in school district organization.

Taxpayer pressure to slow the rise in aggregate property tax levies and, in some instances, to obtain outright property tax relief has had and will continue to have an equalizing impact on the school finance system. To the extent that the taxpayer pressure is successful, a larger proportion of State-local school costs will be supported by State non-property taxes thereby reducing the significance of inter-district school finance disparities.

Federal aid to States and localities has been trending upward, revenue sharing being the most recent manifestation. Recent amendments to the Social Security Act shifted more of the responsibility for welfare financing from the States to the Federal government. Federal funds free-up State funds for use on other State functions. Part of the money probably will be channeled into school support to relieve pressure on the local school property tax. At a minimum, the expansion of Federal aid to States and localities will help the States in meeting school costs.

Even though the Supreme Court has overturned the *Rodriguez* decision, *Serrano*-type litigation has so dramatized the existence of intrastate school finance disparities that State political leaders will hereafter be under constant pressure to improve the State's distribution of school funds.*

4. Congress has not given explicit recognition to the relative financial ability of local school districts in Federal education aid legislation as a general rule, although it has incorporated provisions to equalize among States in some aid programs. Where a Federal school aid program has affected intrastate school finance disparities, the influence has been at best a secondary concern or an unintended effect.

*The U.S. Supreme Court overturned the *Rodriguez* decision on March 21, 1973.

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The Federal government has heretofore followed a "hands off" policy with respect to the division of fiscal responsibility between a State and its local school districts. This neutrality policy has rested on the belief that the hammering out of the details of the State-local financial partnership in the school finance area is an "internal" matter that should be resolved by each State.

FOOTNOTES

[1]ACIR, *State Aid to Local Government* (Washington: GPO, 1969) p. 14.

[2]*Report of the New York State Commission on the Quality, Cost, and Financing of Elementary and Secondary Education* (New York: The Commission, 1972), p. 213.

[3]Bendixsen, Marian, *In Search of Equality: School Finance Revisited* (Washington: National Committee for the Support of the Public Schools, 1972), p. 41.

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chapter IX

the disparities issue

As the euphoria was replaced by thoughts about what to do next, Serrano became a springborad for everyone's pet solution to the education problem. The Advisory Commission on Intergovernmental Relations hoped Serrano would strengthen the State's role in the federal partnership and lead to a total State assumption of education costs. Certain economists were pleased that their favorite whipping boy, the regressive property tax, had been dealt a major blow. Ralph Nader used Serrano to press instead for reforms that would increase the property tax's equity and yield. Some people wanted "upward leveling" to get more districts to spend more; others wanted "downward leveling" to stop some districts from spending too much. Some wanted to preserve local options, others to kill them. Many taxpayers just thought the whole thing would lower their tax bill. But most of those who were early supporters of the lawsuits seemed to think that Serrano would funnel more funds into the increasing number of bankrupt city schools—

Phyllis Myers, City
Winter 1971

Public schools in the United States have long been thought of primarily as a local enterprise; yet, incontestably, the States possess all of the plenary powers in education. By tradition most States have delegated a major share of the financing responsibility to local school districts. When a legislature delegates certain of its fiscal powers to subdivisions of the State, however, it delegates unequal powers unless each subdivision is a microcosm of the State itself. No State has ever succeeded in making each school district a miniature version of the State. School districts vary greatly in two important ways: (a) their fiscal capacity (*See Table* 31) and (b) the commitment of their residents to the support of schools.

To assure that the unequal local commitment to schools does not undermine basic State educational interests, the States have enacted compulsory school attendance and other laws requiring local districts to tax themselves in order to provide certain educational programs. In recognition both of the importance of education and of the unequal local fiscal

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Table 31

Ratio of Assessed Valuation Per Pupil in District With Largest Valuation Per Pupil to That in District with Smallest Valuation Per Pupil For Each State, 1968-69

State	Ratio	State	Ratio
Alabama	4.5/1	Montana	3.1/1
Alaska	3.9/1	Nebraska	19.0/1
Arizona	22.2/1	Nevada	4.0/1
Arkansas	10.7/1	New Hampshire	4.5/1
California	24.6/1	New Jersey	10.5/1
Colorado*	11.4/1	New Mexico	21.4/1
Connecticut*	5.7/1	New York	84.2/1
Delaware	5.5/1	North Crolina	3.2/1
Florida	9.3/1	North Dakota*	1.7/1
Georgia	4.7/1	Ohio	10.7/1
Hawaii	**	Oklahoma	22.4/1
Idaho*	3.0/1	Oregon	5.3/1
Illinois*	20.1/1	Pennsylvania	10.5/1
Indiana	17.4/1	Rhode Island	2.2/1
Iowa	5.2/1	South Carolina	8.8/1
Kansas	182.8/1	South Dakota	9.7/1
Kentucky	8.6/1	Tennessee	9.5/1
Louisiana*	13.5/1	Texas*	45.1/1
Maine	11.2/1	Utah	8.6/1
Maryland	2.8/1	Vermont	3.3/1
Massachusetts	10.4/1	Virginia	6.8/1
Michigan	30.0/1	Washington	12.5/1
Minnesota	5.2/1	West Virginia	3.6/1
Mississippi	5.2/1	Wisconsin	77.9/1
Missouri*	29.6/1	Wyoming*	6.1/1

* Locally assessed valuation is used for these States. Otherwise, equalized assessed valuation is used.

**Property tax revenues not used to support education in Hawaii.

Source: President's Commission on School Finance, *Review of Existing State School Finance Programs* (Washington: 1972), Vol. II.

capacity to finance it, most States have established school aid programs to channel funds to local districts to permit them to meet the basic State interest in education.

A majority of the States guarantee a minimum or "foundation" level of spending per pupil for each local school district. If a required local property tax rate fails to raise enough revenue to meet the foundation level, the State pays the difference. For example, if the foundation level were $400 per pupil and the required property tax rate 10 mills, one school district with 2000 pupils and taxable value of $60,000,000 would only be able to raise $600,000 while the minimum would be $800,000. The State would make up the $200,000 difference to that district.

In virtually all cases, however, the foundation level of expenditure per pupil has been set at a level well below the statewide average of actual expenditure per pupil. In fact, in all States except Hawaii, legislators have been unwilling to offset fully the variations in local fiscal capacity with equalizing State aid.

The ACIR noted in its report, *State Aid to Local Government:*

> In theory at least, State legislators could adopt "Robin Hood"-type equalization programs designed to skim off excess property tax wealth from rich districts and transfer these resources to poor jurisdictions. In practice, however, this is extremely difficult as State legislators can

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Table 32

Variations in State Expenditure Per Pupil, by State, 1969-70

State	High District Expenditure	Low District Expenditure	High to Low Ratio	State	High District Expenditure	Low District Expenditure	High to Low Ratio
Alabama	$ 580	$ 294	2.0	Montana	8,515	467	18.2
Alaska	1,810	480	3.8	Nebraska	3,417	274	12.4
Arizona	2,900	410	7.1	Nevada	1,678	746	2.2
Arkansas	1,005	294	3.4	New Hampshire	1,356	280	4.8
California	3,187	402	7.9	New Jersey	2,876	484	5.9
Colorado	2,801	444	6.3	New Mexico	1,183	477	2.5
Connecticut	1,311	499	2.6	New York	7,241	633	11.4
Delaware	1,081	633	1.7	North Carolina	732	467	1.6
Florida	1,036	582	1.8	North Dakota	1,842	327	5.6
Georgia	735	364	2.0	Ohio	1,684	412	4.1
Hawaii	489	489	1.0	Oklahoma	2,565	309	8.3
Idaho	3,172	483	6.6	Oregon	4,941	431	11.4
Illinois	2,295	390	5.9	Pennsylvania	4,230	535	7.9
Indiana	961	373	2.6	Rhode Island	1,206	531	2.3
Iowa	1,166	591	2.0	South Carolina	610	397	1.5
Kansas	1,572	489	3.2	South Dakota	6,012	175	34.2
Kentucky	885	344	2.6	Tennessee	774	315	2.5
Louisiana	922	499	1.8	Texas	11,096	197	56.2
Maine	1,966	215	9.1	Utah	1,514	533	2.8
Maryland	1,036	634	1.6	Vermont	1,517	357	4.2
Massachusetts	4,243	454	9.3	Virginia	1,159	441	2.6
Michigan	1,275	409	3.1	Washington	3,993	433	9.2
Minnesota	1,492	373	4.0	West Virginia	721	502	1.4
Mississippi	825	321	2.6	Wisconsin	1,391	408	3.4
Missouri	1,929	213	9.1	Wyoming	14,554	617	23.6

Source: President's Commission on School Finance, *Review of Existing State School Finance Programs* (Washington: 1972), Vol. II, with additional analysis by the U.S. Office of Education.

generally be expected to support proposals that will aid their districts and to oppose any bald attempt to transfer their district's wealth to poorer jurisdictions. As a result, most State aid programs at best are "mildly" equalizing; incredible as it may seem, many of them discriminate against the central cities where educational needs are the most dire. For this reason then, State aid programs generally fail to level off the great peaks thrown up by wealth and local fiscal autonomy and only partially fill in the valleys left by anemic local resources.[1]

Magnitude of the Disparities

As a result of the inadequacy of State equalization programs, the fiscal disparities among school districts are considerable. Data for the 1969-70 school year indicated that the ratio in per-pupil spending between the high spending district and the low spending district was equal to or less than 2 to 1 in 11 States. (*See Table 32.*) In seven States the ratio exceeded 10 to 1.

Extremely high expenditures per pupil in some districts, however, often represent very special situations. In some States they occur in sparsely populated rural districts with a single one-room school, one teacher, very few pupils, and possibly very high transportation costs. In other States they may be in districts that serve primarily handicapped or mentally retarded children.

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Table 33

Ratio of Expenditure Per Pupil at The 90th Pupil Percentile to Lowest Per-Pupil Expenditure in Each State, 1969-70

State	Lowest District Per-Pupil Expenditure	Per-Pupil Expenditure at the 90th Pupil Percentile	Ratio of 90th Percentile Level to Lowest Level
Alabama	$294	$ 473	1.6/1
Alaska	480	1,254	2.6/1
Arizona	410	991	2.4/1
Arkansas	294	512	1.7/1
California	402	918	2.3/1
Colorado	444	853	1.9/1
Connecticut	499	1,002	2.0/1
Delaware	633	1,081	1.7/1
Florida	582	824	1.4/1
Georgia	364	706	1.9/1
Hawaii	489	489	1.0/1
Idaho	483	904	1.9/1
Illinois	390	1,129	2.9/1
Indiana	373	729	2.0/1
Iowa	591	912	1.5/1
Kansas	489	798	1.6/1
Kentucky	344	576	1.7/1
Louisiana	499	730	1.5/1
Maine	215	660	3.1/1
Maryland	634	1,037	1.6/1
Massachusetts	454	963	2.1/1
Michigan	409	888	2.2/1
Minnesota	373	777	2.1/1
Mississippi	321	541	1.7/1
Missouri	213	808	3.8/1
Montana	467	1,358	2.9/1
Nebraska	274	786	2.9/1
Nevada	746	929	1.2/1
New Hampshire	280	739	2.6/1
New Jersey	484	1,009	2.1/1
New Mexico	477	645	1.4/1
New York	633	1,193	1.9/1
North Carolina	467	675	1.4/1
North Dakota	327	776	2.4/1
Ohio	412	881	2.1/1

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State	Lowest District Per-Pupil Expenditure	Per-Pupil Expenditure at the 90th Pupil Percentile	Ratio of 90th Percentile Level to Lowest Level
Oklahoma	309	662	2.1/1
Oregon	431	914	2.1/1
Pennsylvania	535	1,102	2.1/1
Rhode Island	531	1,045	2.0/1
South Carolina	397	562	1.4/1
South Dakota	175	750	4.3/1
Tennessee	315	629	2.0/1
Texas	197	668	3.4/1
Utah	533	630	1.2/1
Vermont	357	905	2.5/1
Virginia	441	776	1.8/1
Washington	433	981	2.3/1
West Virginia	502	706	1.4/1
Wisconsin	408	849	2.1/1
Wyoming	617	1,146	1.9/1

Source: President's Commission on School Finance, *Review of Existing State School Finance Programs* (Washington: 1972), Vol. II, with additional analysis by the U.S. Office of Education.

For these reasons, a more accurate picture of the true disparities in educational spending may be obtained by comparing the lowest per-pupil expenditure with per-pupil expenditure at the 90th pupil percentile in each State.* Table 33 gives the results of this comparison. In half the States per-pupil spending is still at least twice as great at the 90th pupil percentile level as at the lowest level.

A Critical Event—The Judges Decide

The California Supreme Court sent shockwaves across the country on August 30, 1971, when it held that California's school finance system was unconstitutional if, as the plaintiffs in *Serrano vs. Priest* alleged, the quality of a child's education depends on the wealth of his parents and neighbors. Aftershocks soon followed as Federal courts made similar rulings in Minnesota in October, and Texas in December. Early in 1972, a State court in New Jersey held that State's education financing system in violation of both the State and Federal constitutions. Additional suits were brought in other States. The United States Supreme Court accepted the Texas case *(Rodriguez v. San Antonio Independent School District)* for review during its 1972-73 term.*

Earlier Cases

These cases did not spring upon the Nation's judiciary from the void. Over the years, a judicial history had been building toward these suits. In 1969, in *McInnis v. Shapiro*, a three-judge Federal court in Illinois rejected an appeal for statewide apportionment of school funds based on "educational needs." The court rejected the *McInnis* contention primarily because:

> Unequal educational expenditures per student, based upon variable property values and tax rates of local school districts do not amount to invidious discrimination. . . . There is no constitutional requirement that public school expenditures be made only on the basis of pupils' educational needs without regard to the finan-

*The 90th pupil percentile level of per-pupil expenditure is the level at which 90 percent of the State's pupils are in districts with that level of per-pupil spending or less. Only 10 percent of the State's pupils are in districts with that level of per-pupil spending or more.

*The U. S. Supreme Court overturned the *Rodriguez* decision on March 21, 1973.

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cial strength of local school districts. . . . The allocation of public revenues is a basic policy decision more appropriately handled by a legislature than a court.

This decision was upheld by a summary ruling of the U.S. Supreme Court in 1970 (*McInnis v. Ogilvie*). In Virginia, a suit attacking that State's school financing system (*Burruss v. Wilkerson*) was turned down, based on the *McInnis* decision.

Subsequent suits carefully avoided the "education need" test but dealt specifically with discrimination on the basis of wealth.

Government Intent

As to a defense contention that, at most, the *Serrano* case involved *de facto* discrimination, the California Supreme Court held:

> We disagree. Indeed, we find the case unusual in the extent to which governmental action is the cause of the wealth classifications. The school funding scheme is mandated in every detail by the California Constitution and statutes. Although private residential and commercial patterns may be partly responsible for the distribution of assessed valuation throughout the State, such patterns are shaped and hardened by zoning ordinances and other governmental land use controls which promote economic exclusivity. . . Governmental action drew the school district boundary lines, thus determining how much local wealth each district would contain.

Local Control

A major philosophical and political question running through all discussions of school financing is the desirability of local control. California has a State policy "to strengthen and encourage local responsibility for control of public education." The court, in *Serrano*, found the financing system and the *decision-making* power to be separate. It had a telling response to the assertion that the current system permitted local districts to choose how much to spend on the education of their children:

> We cannot agree that Baldwin Park residents care less about education that those in Beverly Hills solely because Baldwin Park spends less than $600 per child while Beverly Hills spends over $1,200. As defendants themselves recognize, perhaps the most accurate reflection of a community's commitment to education is the rate at which its citizens are willing to tax themselves to support their schools. Yet by that standard, Baldwin Park should be deemed far more devoted to learning than Beverly Hills, for Baldwin Park citizens levied a school tax of well over $5 per $100 of assessed valuation, while residents of Beverly Hills paid only slightly more than $2.

> In summary, so long as the assessed valuation within a district's boundaries is a major determinant of how much it can spend for its schools, only a district with a large tax base will be truly able to decide how much it really cares about education. The poor district cannot freely choose to tax itself into an excellence which its tax rolls cannot provide. Far from being necessary to promote local fiscal choice, the present financing system actually deprives the less wealthy districts of that option.

Misgivings About the Court Decisions

These court decisions have aroused considerable controversy. Some argue that since studies have failed to show any connection between level of expenditure and quality of education, the courts should not concern themselves with school finance disparities. Others contend that the reduction of disparities is not worth the sacrifice of local control of schools which they claim would be required. Those concerned with the plight of the Nation's cities support the findings of the courts but fear that solutions to the problem will not take the needs of the cities sufficiently into account.

The Cost-Quality Controversy

Some critics of the *Serrano* decision have alleged that the Coleman report[2] and subsequent studies have failed to establish any connection between provision of school facilities and quality of schooling; that a child's family background and preschool environment have a far greater effect on his educational achievement than other factors. They argue that increasing school expenditures—whether for more teachers, teacher training, more books and equipment, or other school facilities—will have negligible effects on pupil achievement. It is therefore a waste of time, according to these critics, to pay any attention to variations in school expenditures since variations have such slight educational significance.

While it is true that the Coleman report found that a child's family background and peer group have a substantial effect on his achievement in school, none of the major studies of school spending and pupil achievement has found a complete absence of significant relations between school inputs and outputs. Appendix J provides a summary of a selected group of these studies. While the potential effect of schools on student achievement may be limited, even a small school effect does not vitiate the arguments for spending larger amounts in low spending districts without reducing expenditures in others—that is, for placing school districts on an equal fiscal footing.

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Local Control

The court cases invalidating State school finance systems have led some laymen and professional educators to fear the loss of local control over schools. They foresee the implied equalization of per-pupil support by larger grants from higher governmental levels resulting in demands by officials at higher governmental levels for a greater say in how funds are spent at the local level. Thus, they claim, one potential outcome of the court cases is the shift of policy control from local to State or Federal governmental levels.

Those who believe that control follows money would like to preserve the positive contributions local control has made to our educational system: diverse educational techniques; pursuit of educational excellence with minimal bureaucratic clearance; parental involvement along with practice in the skills of citizenship and public policy determination; and responsiveness to the particular needs of unique communities.

Arrayed opposite the proponents of undiluted local control stand those who believe the issue is a mere smoke-screen for opponents of equal educational opportunity. According to this view, local control is more myth than substance. It is the means by which privileged districts will retain their status thereby perpetuating not only unequal education but also racial, social and economic isolation.

There is another argument as well. If local control is not a myth but is in fact reality, then the exercise of local control has been one of the reasons for the state in which elementary and secondary education now finds itself. Those who see problems in education now, regard the problems as evidence that local control is not effective.

The middle ground is occupied by those seeking to get equality in per-pupil financial support while maintaining significant decision-making—at least in nonfinancial areas—at the local level. This view is held by some ardent proponents of centralized financing who nonetheless advocate local decision-making for such matters as hiring, firing and assigning personnel as well as the control function (assignment and discipline of students). They also suggest local control within appropriate State guidelines over: curriculum content and sequence; textbook and instructional material selection; and establishment of school attendance zones.

The effort to arrive at a workable compromise between centralized financing and a large measure of local control is exemplified in ACIR's *State Aid to Local Government*. In support of its recommendation for State assumption of financial responsibility for schools, the Commission argued that:

> . . . Once liberated from the necessity of "selling" local bond issues and tax rate increases, school superintendents and local board members can concentrate their efforts on the true interest of local control—namely the nature and quality of education that is provided for the children of their locality. Further, the long tradition of local control of education and the keen concern of most parents for the educational well-being of their children will serve as sturdy defenses against both arbitrary State administrative action and any policy that short changes educational financial requirements. Indeed, there is reason to believe that forward looking State educational leadership would encourage and promote local educational innovations.[3]

Action by a higher level of government is required in order to reduce intrastate school finance disparities. To the extent that the distribution of school support is made more uniform there will be some infringement of local powers. Some local districts may have to take less in the way of State support. In other districts, the State may have to impose a limit on spending to hold down the amount of State funds that otherwise would be required for equalizing purposes.

Virtually every State has laws reflecting past accommodations to conflicting views about who should control expenditure decisions; and each State apparently has arrived at a different accommodation of the interests. Studies have failed to detect any relationship between the State's share in school support and the controls the State exerts over local school districts. Recently the Urban Institute reviewed a sample of States and concluded that:

> There is little direct relationship between the percentage of State aid provided and the degree of State restrictions on the operation of local school boards.[4]

In summing up the local control controversy, one student of the issue noted, "It is clear that the States have had the wherewithal to usurp local prerogatives if they were so inclined. Yet the concept of local control is so strong in American public education, it is probably its own sturdiest defense."[5]

Concern for the Big Cities

The possible effects of *Serrano* have also been viewed somewhat skeptically by those concerned about the fiscal and social problems of the Nation's central cities. Urbanists fully support the argument that current school finance disparities ought to be corrected, but they are apprehensive about the means used to correct them. This apprehension was expressed in a *Washington Post* editorial on the lower court decision in the *Rodriguez* case:

> The first question is whether . . . inequalities

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violate the Constitution. The second question is how to move toward equality. . .

The Texas decision implies full State funding which, in its simplest form, would mean uniform statewide tax rates. It would also mean uniform statewide expenditures on children, possibly with adjustments for local operating costs. The effect is to bring the low-budget school system up to the statewide level, wherever it may be set, but it also holds the high-budget school systems down to the statewide level. The Texas decision has a certain superficial attraction because it offers one simple thou-shalt-not. But it is a dangerous simplicity.

Equal statewide financing will take more money out of the central cities than it will give to them. If the greatest needs, and the greatest deprivations of equal educational opportunity, are in the central cities, then it follows that full equalization will only make bad matters worse. Under the Texas decision a State could theoretically choose to appropriate extra funds to deprived urban children. But it would be very difficult for the cities to get those appropriations through any legislature, as a matter of practical politics, in a period in which other wealthy districts were being held down. The most dramatic benefits of equalization would flow to rural schools. . . Any rule of statewide equalization would turn out to have unintended effects that have not yet been examined in the national discussion of this issue.[6]

This same question of how the central cities would fare under an equalization scheme designed to satisfy the courts was raised by Joel S. Berke of Syracuse University and John J. Callahan of the University of Virginia. Their concern is revealed in the following passage:

> On several counts, then, popular acclaim for the fiscal reforms of state assumption of educational finances or power equalizing needs further scrutiny. School tax efforts and school expenditures, measured in per pupil terms, will indeed be more congruent after the fiscal reforms of state assumption or power equalizing. Yet enduring problems of assuring comprehensive fiscal equity will still affect poorer school systems. Cities will be forced to raise their total tax levies at a time when they can ill afford to. In many cases this equal rate of effort will be levied on a fiscal capacity that is lower than suburban areas, tightening the winch on central city fiscal pressure.[7]

The urbanists base their concern over equalization on three main points. First, it is argued that true equality of educational opportunity requires that additional compensatory resources be devoted to the education of disadvantaged children. (A similar case can be made for physically handicapped, mentally retarded and "giffed" children). A strict equalization of expenditures per pupil without regard to the special needs of the educationally disadvantaged would be a particularly severe hardship for central cities since it is there that disadvantaged children are concentrated.

Second, urbanists point out that educational inputs —land, insurance, repair of vandalism damage, teachers and other personnel—generally cost more in the central city. If equalization is based strictly on dollar amounts, the actual resources devoted to education will not be equalized. Because a given level of expenditure per pupil will buy less in cities than elsewhere, an equalization formula that does not make adjustment for relative costs of providing educational services discriminates against the cities.

Finally, the urbanists argue that central cities suffer from municipal overburden. The municipal budget must necessarily be much greater relative to population or tax base in central cities than in suburban or rural areas because more services must be provided and because these services cost more to provide. Funds for education are therefore more difficult to raise, and it is argued that school equalization formulas should take account of this greater demand on the central city tax base.

Answering the urbanists. With regard to the urbanists' first two points, it should be noted that nothing in the *Serrano* decision requires absolutely equal dollar expenditures per pupil throughout a State. James A. Kelly of Columbia University has stated:

> If the major city in a state already spends above average for public education, the legislature could manage the continuation or expansion of such above-average expenditures by providing in its finance formulas for variations based upon socioeconomic need of students, or upon the increased costs of urban educational services. Nothing in *Serrano* indicates that the courts would strike down such provisions should a legislature choose to include them in a formula that met the "wealth neutrality" test. To date, the courts have taken pains not to foreclose the possibility for "rational" differentials in per pupil expenditures.[8]

Both the *Washington Post* editorial cited earlier and Berke and Callahan contend that while strict equality of expenditures is not required by the courts, the political realities in State legislatures make it the likely outcome of the *Serrano* litiga-

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tion.[9] Strong political leadership and perhaps a Federal incentive may therefore be required to assure equity for the cities. But unfair treatment of city school children is not an inevitable result of school finance reform. In response to the *Washington Post* editorial, Governor Wendell R. Anderson of Minnesota stated in a letter to the editor of the *Post*, published June 17, 1972:

> You say the (Rodriguez) decision "theoretically" allows extra funds for deprived urban children, but that it would be "very difficult" to get these funds for the educational overburden of hard-to-educate children. In Minnesota it is not theory. Minnesota's new school aid law counts each child from an AFDC family as an additional ½ pupil unit. The cost of this extra weighting is $37,000,000, with the largest part going to the central cities.

To the extent that municipal overburden is a valid concern (for example under circumstances in which inner city residents are unable to choose freely their place of residence because of various artificial barriers) the preferable governmental response would be to attack the problem directly. ACIR recommended in 1969 that until States have assumed substantially full responsibility for financing education, State equalization programs should make some allowance for municipal overburden.[10] But the report noted that if it were politically feasible, a more direct program of "front door" financing would be preferable to the "back door" approach of building a municipal overburden factor into the school aid program.

Implications of the School Finance Cases

Far more restructuring of school finance was read into *Serrano*-type suits originally than subsequent analysis of the judicial opinions revealed. Indeed, the California Supreme Court had to issue a modification of its original opinion noting that it had not invalidated the property tax as a means of financing education nor had it held that property tax rates for schools must be equal throughout the State.

Because no court has as yet prescribed the way a State must arrange its school finance system, the school finance cases have only general implications. Fiscally speaking, the implications of *Serrano*-type suits seem to be that States have an obligation, backed by judicial decree, to reform their existing system of school finance.

As part of the reform of its existing school finance system, a State is likely to confront a major new fiscal demand—the cost of raising per-pupil spending in low wealth districts—if it seriously intends to eliminate wealth as a determinant of local per-pupil spending.

Four Paths to Fiscal Equalization

At least four broad approaches to school finance reform would meet the *Serrano* test of eliminating local wealth as a substantial determinant of per-pupil expenditures—reorganization of school districts, a "beefed-up" foundation program, power equalizing, and full State funding.

School district reorganization. Reorganization of school districts would entail redrawing school district boundaries to provide equal property valuation per pupil in each district. This remedy would preserve local control completely intact. No major new State tax effort would be required. But some means would have to be devised to insure the equality of valuations per pupil in subsequent years.

"Beefed-up" foundation programs. If the State funding of present State foundation programs were "beefed-up" to a point where each local district were assured a per-pupil expenditure near the maximum in any district in the State, a court might view the inequalities in local resources as "tolerable." Local districts would still have unequal abilities to move beyond the foundation level, but a high foundation level might be viewed as an acceptable accommodation between two conflicting goals—that of permitting a degree of local fiscal control and that of placing local districts on substantially equal fiscal footing.* This approach would probably require a major increase in State school aid.

Power equalizing. Power equalizing, a plan discussed extensively by Coons, Clune, and Sugarman,[11] would involve the use of State aid to compensate for disparities in local tax bases so that at any level of tax effort every local district would raise the same amount of money per pupil through the combination of locally raised revenue and compensating State aid. In its simplest form, some specified level of valuation per pupil would be guaranteed for each district. If the district's actual per-pupil valuation fell below the guarantee, it would be entitled to State aid equal to the difference between its

*Two alternative formulations of "substantially equal fiscal footing" might be: (1) not less than (80) percent of the State-local costs of the public elementary and secondary school program derived from State revenue sources, or (2) a State foundation program that resulted in a variance in the expenditure per pupil of no more than 1 to 1.3 between the district spending the least per pupil and the district spending at the 95th percentile of per-pupil expenditure in the State when a uniform property tax rate is applied to property values equalized between districts to reflect differences in the relationship of assessed value to market value.

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actual tax collections and the yield of its tax levy on the guaranteed valuation per pupil. If the wealthier districts had valuations above the guarantee level, they would be required to pay into a statewide pool the yield from the excess valuation per pupil. Each local district would remain free to set its tax rate for school purposes at the level it wished, but the resultant expenditure per pupil would be determined by the State formula. Additional State funds might or might not be required, depending on the level of the guaranteed valuation per pupil.

Full State funding. Finally, the State government might assume the responsibility for raising and distributing virtually all revenues for local schools. Local districts might be permitted to add on 10 or 20 percent of the State funds, possibly on a power-equalized basis. Local school taxes would be reduced, and State taxes increased to replace the local taxes. Additional tax revenue might be required if the State adopted a policy of "leveling-up" lower districts to avoid having to reduce expenditures in high-spending districts. This is the approach that has been endorsed by ACIR and by the President's Commission on School Finance. Governor William G. Milliken of Michigan and Governor Wendell R. Anderson of Minnesota; New York's Commission on the Quality, Cost and Financing of Elementary and Secondary Education; and the Citizens Commission on Maryland Government have all supported the concept of State assumption of financial responsibility for schools.

Regardless of the approach taken, the question of prime importance from an intergovernmental aspect is whether the States have the necessary capabilities to solve the problem of intrastate fiscal equalization. This will be taken up in the next chapter.

FOOTNOTES

[1]ACIR, *State Aid to Local Government*, 1969, p. 15.

[2]James S. Coleman *et. al.*, *Equality of Educational Opportunity* (Washington, D.C.: U.S. Office of Education, 1966).

[3]ACIR, *State Aid*, p. 15.

[4]Urban Institute, *Public School Finance: Present Disparities and Fiscal Alternatives* (Washington, D.C.: President's Commission on School Finance, 1972), Vol. I, p. 249.

[5]Arthur E. Wise, "School Finance Equalization Lawsuits: A Model Legislative Response." *Superintendent's Advisory Committee on School Finance, Occasional Paper No. 1*, March 1972 (Illinois Superintendent of Public Instruction, 1972), Unpaged.

[6]"Schools, Money and the Texas Case," *Washington Post* (May 31, 1972), p. A16.

[7]J. S. Berke and J. J. Callahan, "Serrano v. Priest: Milestone or Millstone for School Finance," *Journal of Public Law*, Vol. 21, No. 1 (1972), pp. 64-65.

[8]James A. Kelly, "Consequences for the "70's," *Compact*, Vol. 6, No. 2 (April, 1972), p. 7.

[9]Berke and Callahan, *op. cit.*, p. 52.

[10]ACIR, *State Aid*, p. 20.

[11]John E. Coons, William H. Clune III, and Stephen D. Sugarman, *Private Wealth and Public Education* (Cambridge, Massachusetts: Harvard University Press, 1970).

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chapter X

the ability of the states to solve the intrastate disparities problem

Let's face it. There just were not enough votes in the Assembly for an income tax, and I doubt if there will be in the near future. That tells me that the Assembly has interpreted the voice of the people, rightly or wrongly, as not wanting to substitute state taxes for local property taxes.

They are willing, for now, to accept a 10 percent yearly increase in real estate taxes. They have given me that message loud and clear.

William T. Cahill
Governor of New Jersey
Press Conference, July 18, 1972

Regardless of the U. S. Supreme Court's interpretation of the constitutional issue of State school finance systems, State courts may find grounds in their own constitutions for requiring the elimination of existing disparities. Thus, it is important to assess State ability to solve the school finance disparities problem. This assessment has two dimensions—fiscal and political. The fiscal question is whether States have the capacity to raise the revenue required to eliminate a major portion of the existing disparities. The political question hinges on whether States have the capacity to overcome the political problems inherent in a major realignment of the school financial structure.

The Fiscal Dimension

A fairly simple procedure can be worked out to evaluate State fiscal capacity to deal with disparities provided certain assumptions are made.

The New Money Requirement

Difficulties arise with the very first step of this analysis. In the decisions handed down thus far, the courts have ruled that local school expenditures should not be influenced by the wealth of the local school district. A number of alternative school finance schemes would meet this criterion, ranging from reorganization of school districts with equal wealth per pupil to full State funding of schools. Depending on the plan adopted, the level of total school spending might or might not be increased in the process of responding to a court ruling. Theoretically, the influence of wealth on school spending could be eliminated without the need for a net increase in total State-local spending for schools although local school tax revenues might be replaced with State revenues. A State could adopt a plan that would require reductions in the spending levels of wealthier districts or the transfer of funds from wealthier to poorer districts ("leveling-down"). States could, alternatively, adopt a plan that would bring per-pupil spending levels of low-spending districts to the maximum spending level ("leveling-up").

On the assumption that this last response is most feasible politically, the staff of the President's Commission on School Finance collected data on the distribution of school expenditures in each State to permit an estimate of the net increase in revenues required for such a leveling-up program. Table 34 shows the estimates of additional amounts needed—over and above present uneven financing from State and local sources—to achieve the specified expenditure level in those districts now below that level. The figures were not adjusted to allow for legitimate variations in expenditures such as the higher costs of educating secondary pupils as compared to ele-

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TABLE 34—COST OF RAISING PER-PUPIL SPENDING IN ALL LOWER SPENDING DISTRICTS TO SPECIFIED PUPIL PERCENTILE SPENDING LEVELS, BY STATES, 1969-70
(In Millions of Dollars)

States	Exhibit: State-local expenditures for local schools	Cost of leveling up per-pupil spending to—				
		90th pupil percentile	80th pupil percentile	70th pupil percentile	60th pupil percentile	50th pupil percentile
United States	$37,301.2[1]	$6,928.8	$4,333.2	$3,095.9	$2,288.2	$1,662.4
Alabama	428.1	44.3	25.2	20.1	14.9	7.0
Alaska	88.3	11.2	9.9	4.5	0.5	0.5
Arizona	347.3	97.1	69.7	48.8	21.0	16.8
Arkansas	233.6	41.0	22.4	18.1	14.7	9.2
California	4,113.7	815.9	455.6	267.7	222.0	186.2
Colorado	400.7	72.9	72.9	50.1	21.2	18.6
Connecticut	616.3	140.6	94.6	71.8	42.7	29.1
Delaware	130.2	32.6	7.8	5.8	3.1	1.7
Florida	1,166.0	127.8	127.8	92.4	51.7	41.7
Georgia	729.3	176.6	65.8	31.1	28.9	20.8
Hawaii	167.8	-0-	-0-	-0-	-0-	-0-
Idaho	111.6	36.2	16.1	16.1	11.0	6.1
Illinois	2,026.7	456.1	342.5	342.5	233.4	126.7
Indiana	947.8	128.9	90.8	84.7	59.4	43.0
Iowa	607.6	94.1	48.3	36.3	29.7	16.4
Kansas	423.8	76.1	30.6	20.2	14.7	14.7
Kentucky	445.4	62.9	62.9	36.0	17.4	12.2
Louisiana	534.8	60.2	33.1	22.2	16.3	15.4
Maine	150.3	26.1	19.3	12.4	9.2	6.9
Maryland	865.0	188.6	33.4	33.4	29.2	18.4
Massachusetts	956.7	259.9	139.0	81.8	63.2	53.6
Michigan	1,922.0	364.4	215.6	150.2	133.5	108.5
Minnesota	920.4	120.6	87.5	67.5	41.9	29.6
Mississippi	282.2	45.7	39.7	25.3	19.4	13.6
Missouri	783.2	121.9	120.6	73.1	56.4	37.1
Montana	130.6	68.4	39.0	22.8	20.2	11.8
Nebraska	265.8	53.8	22.9	14.7	13.6	10.5
Nevada	100.9	8.3	1.4	1.4	0.1	0.1
New Hampshire	107.2	19.3	13.1	9.3	5.1	3.6
New Jersey	1,330.6	317.5	188.9	126.9	87.0	57.1
New Mexico	210.3	26.7	15.4	5.8	3.3	1.1
New York	4,295.7	609.2	331.2	331.2	331.2	296.6
North Carolina	726.1	95.0	50.2	43.2	35.4	25.3
North Dakota	107.6	19.7	16.3	9.6	6.7	6.1
Ohio	1,730.9	518.4	290.5	211.3	161.6	98.6
Oklahoma	363.4	61.9	41.4	27.9	17.0	16.8
Oregon	425.2	62.0	37.9	22.7	18.5	18.5
Pennsylvania	2,147.0	504.7	393.8	210.2	137.7	81.8
Rhode Island	140.8	48.2	19.7	15.4	9.2	6.2
South Carolina	404.0	31.2	22.0	16.9	8.6	8.3
South Dakota	135.7	22.4	12.5	7.0	3.7	3.7
Tennessee	534.2	98.9	72.9	61.8	39.8	19.2
Texas	1,747.4	295.0	168.4	113.2	73.4	57.2
Utah	205.7	12.9	9.2	6.8	1.7	1.3
Vermont	71.4	24.1	15.9	14.0	10.0	6.2
Virginia	777.1	145.1	145.1	78.9	51.4	27.6
Washington	779.9	120.7	91.0	65.9	52.2	35.5
West Virginia	259.9	33.2	18.6	13.9	12.8	5.9
Wisconsin	831.4	101.3	67.3	43.6	28.1	28.1
Wyoming	73.6	29.2	17.5	9.4	4.5	1.5

Note: Costs of leveling-up are based on State reports of school district per pupil expenditures. There has been no attempt to make per pupil expenditure calculations comparable within or among States, and the indicated leveling-up costs are to be considered only rough approximations.

[1] Excluding the District of Columbia.

Source: President's Commission on School Finance, *Review of Existing State School Finance Programs*, Vol. II, with additional analysis by the U.S.O.E.

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mentary pupils, or the higher transportation costs in some areas. This lack of refinement in the data probably results in an overestimate of the leveling-up costs. Analysis of the New Jersey figures indicates that this is indeed the case in that State.* The estimates in Table 34 may thus represent an upper bound on the increase in the total State-local tax burden required in each State to comply with a *Serrano*-type court decision. The actual outcome could range anywhere between these estimates and zero depending upon the school finance program adopted by the State.

It should be emphasized that the calculation of leveling-up costs does not estimate the added costs of an actual program in which a State would make a grant to each district sufficient to bring its spending up to a specified percentile level. These calculations assume present local effort (1969-70) in terms of the sums provided. If the influence of local wealth on school spending is to be eliminated, an add-on grant program based only on spending levels would not be sufficient. The leveling-up costs in Table 34 are simply estimates of the *additional* school revenues required to establish a spending floor at a given percentile level, *regardless* of the actual distribution system used—full State funding, increased State aid or whatever.

Fiscal Capacity

The next step is to compare the cost of leveling-up with the current tax effort and the estimated taxable capacity of each State. To make this comparison, a "total tax capacity" series was constructed based on State personal income estimates modified by a tax capacity factor for each State. *(See Table 35.)* State personal income fails to reflect fully the real tax capacity of certain jurisdictions as studies by this Commission have shown.[1] For example, personal income sharply understates the true taxable base of oil and mineral-rich States like Louisiana, Wyoming and Texas because of their ability to tax certain captive industries heavily or of tourist States like Nevada which can capitalize on their peculiar geographical-locational advantages.

The fiscal capacity calculations published by ACIR have been used, therefore, to adjust personal income to reflect capacity based on all major taxable sources rather than simply resident personal income. The ACIR data estimated what State and local governments would get if they made average use—applied a common national rate of use—of all the wealth these jurisdictions have and can tax, including such sources as tourism and mineral wealth.

The ratio of this index of tax capacity to an index of personal income as of 1966-67, the latest year for which the comprehensive capacity measure has been prepared, was then used to modify State personal income to reflect a State's entire relative tax capacity.*

As Column 5 of Table 35 shows, State and local taxes take a greater share of this adjusted tax capacity in some States than in others. New York exerts the greatest tax effort at 16.1 percent of tax capacity.

This table of relative tax effort serves as a foundation for estimating a State's untapped relative tax potential. On the theory that State policymakers will be reluctant to push their State's tax effort beyond that of other States competing for growth and economic development, it is possible to suggest the ranges within which a State's untapped relative tax capacity will fall. *(See Table 36.)***

At the upper extreme a State's untapped relative tax potential might be viewed as the difference between its actual tax collections and the amount it could raise if it made the same tax effort as the highest tax effort State in the Nation—in this case, New York. If this stringent test is used to measure untapped relative potential, 45 States had a lot of fiscal elbow room as of 1971—estimated untapped relative tax capacity in excess of 20 percent of their actual State-local tax collections. Only New York closely followed by Wisconsin, Vermont, Massachusetts and

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*The staff recalculated leveling-up costs for the 90th percentile spending level in New Jersey. The staff used the same expenditure concept underlying the computations for Table 34, but elementary, secondary and unitary school districts were regrouped to provide comparable K-12 programs in the districts and county vocational schools were excluded from consideration of the percentile spending level on the grounds that these schools serve a special population and are not comparable with other school districts. This recomputation resulted in an estimated $205.2 million cost of leveling-up to the 90th percentile for those 1.2 million pupils below this level in 1969-70, which contrasts with the estimated cost of $317.5 million shown in Table 34.

*The indexes were taken from Table G-1, pp. 120-121, in *Measuring the Fiscal Capacity and Effort of State and Local Areas* (ACIR Report M-58, March 1971). Personal income in 1970 in each State was multiplied by the ratio of the index of estimated tax capacity (Column 8 of Table G-1) to the index of residents' personal income (Column 10 of Table G-1) to get the adjusted personal income "tax capacity" measure.

**Some critics suggest that the burden of Federal as well as State and local taxes relative to State personal income should be considered. Based on the estimates of Federal revenue and expenditure for States and regions for fiscal years 1965-67 prepared by the Legislative Reference Service Library of Congress, the States of Delaware, Connecticut, and Illinois would have significantly less overall untapped tax capacity because of their above-average Federal tax contributions.

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TABLE 35—A MEASURE OF STATE-LOCAL TAX EFFORT—STATE-LOCAL TAXES AS A PERCENTAGE OF STATE PERSONAL INCOME ADJUSTED FOR TOTAL TAX CAPACITY, BY STATE AND REGION

(Dollar amounts in millions)

State and region	Personal income 1970[1] (1)	Ratio of ACIR capacity index to personal income index (1966-67)[2] (2)	Personal income adjusted for "tax capacity" [col.(1) x col.(2)] (3)	Total state-local tax collections, 1970-71 (4)	Relative tax effort (collections as % of adjusted personal income) [col.(4) ÷ col.(3)] (5)
United States[3]	$797,377		$801,085	$94,541.0	11.80
New England					
Maine	3,226	0.976	3,149	412.3	13.09
New Hampshire	2,686	1.158	3,110	285.9	9.19
Vermont	1,541	0.989	1,524	226.8	14.88
Massachusetts	24,750	0.891	22,052	3,158.5	14.32
Rhode Island	3,726	0.883	3,290	447.3	13.60
Connecticut	14,638	0.936	13,701	1,642.8	11.99
Mideast					
New York	86,391	0.908	78,443	12,664.2	16.14
New Jersey	32,930	0.922	30,361	3,639.5	11.99
Pennsylvania	46,579	0.910	42,387	5,278.7	12.45
Delaware	2,394	1.060	2,538	278.7	10.98
Maryland	16,877	0.927	15,645	2,032.7	12.99
Great Lakes					
Michigan	36,785	1.013	37,263	4,420.6	11.86
Ohio	42,501	0.962	40,886	3,921.8	9.59
Indiana	19,721	0.961	18,952	2,118.6	11.18
Illinois	49,961	0.958	47,863	5,749.0	12.01
Wisconsin	16,457	0.940	15,470	2,394.2	15.48
Plains					
Minnesota	14,732	0.979	14,423	1,931.6	13.39
Iowa	10,613	1.030	10,931	1,285.6	11.76
Missouri	17,427	1.021	17,793	1,712.5	9.62
North Dakota	1,897	1.122	2,128	262.2	12.32
South Dakota	2,107	1.096	2,309	291.7	12.63
Nebraska	5,649	1.111	6,276	652.8	10.40
Kansas	8,808	1.082	9,530	940.1	9.86
Southeast					
Virginia	16,986	0.977	16,595	1,755.0	10.58
West Virginia	5,297	1.027	5,440	585.1	10.76
Kentucky	9,990	1.053	10,519	1,038.1	9.87
Tennessee	12,091	1.040	12,575	1,204.8	9.58
North Carolina	16,383	1.013	16,596	1,730.5	10.43
South Carolina	7,614	0.928	7,066	781.6	11.06
Georgia	15,434	1.000	15,434	1,548.7	10.03
Florida	25,077	1.169	29,315	2,637.8	9.00
Alabama	9,925	1.014	10,064	959.2	9.53
Mississippi	5,755	1.085	6,244	701.6	11.24
Louisiana	11,128	1.237	13,765	1,396.5	10.15
Arkansas	5,517	1.132	6,245	522.9	8.37

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TABLE 35—A MEASURE OF STATE-LOCAL TAX EFFORT—STATE-LOCAL TAXES AS A PERCENTAGE OF STATE PERSONAL INCOME ADJUSTED FOR TOTAL TAX CAPACITY, BY STATE AND REGION

(Dollar amounts in millions)

State and region	Personal income 1970[1] (1)	Ratio of ACIR capacity index to personal income index (1966-67)[2] (2)	Personal income adjusted for "tax capacity" [col.(1) x col.(2)] (3)	Total state-local tax collections, 1970-71 (4)	Relative tax effort (collections as % of adjusted personal income) [col.(4) ÷ col.(3)] (5)
Southwest					
Oklahoma	8,570	1.229	10,533	843.0	8.00
Texas	40,213	1.126	45,280	3,926.9	8.67
New Mexico	3,183	1.190	3,788	402.9	10.64
Arizona	6,487	1.105	7,168	855.1	11.93
Rocky Mountain					
Montana	2,400	1.167	2,801	299.3	10.69
Idaho	2,340	1.123	2,628	291.9	11.11
Wyoming	1,227	1.516	1,860	164.2	8.83
Colorado	8,523	1.072	9,137	1,021.6	11.18
Utah	3,443	1.036	3,567	425.9	11.94
Far West[4]					
Washington	13,602	1.037	14,105	1,679.3	11.91
Oregon	7,816	1.071	8,371	898.0	10.73
Nevada	2,244	1.462	3,281	293.7	8.34
California	88,863	1.060	94,195	12,199.0	12.95
Alaska	1,399	0.846	1,184	146.0	12.33
Hawaii	3,472	0.952	3,305	484.2	14.65

Note: This table presents each State's tax effort in relation to a measure that reflects all major taxable sources rather than simply resident personal income. ACIR has published two studies on fiscal capacity and tax effort. The most recent publication, *Measuring the Fiscal Capacity and Effort of State and Local Areas*, presents estimates of what State and local governments would collect if they imposed national average tax rates to the various tax bases—property, income, sales—they have and can tax, including such sources as tourism and natural resources. The ratio of this index of tax capacity to an index of personal income as of 1966-67, the latest year for which the comprehensive capacity measure has been prepared, was used to modify State personal income in 1970 to reflect the State's entire relative tax capacity. Actual State-local tax collections for 1970-71 were divided by the amount of the entire relative tax capacity to obtain the State's relative tax effort.

[1] U.S. Department of Commerce, *Survey of Current Business*, August 1972, p. 25.

[2] ACIR Report M-58, pp. 120-121.

[3] Excluding the District of Columbia.

[4] Excluding Alaska and Hawaii.

Source: ACIR Staff.

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TABLE 36—THREE ESTIMATES OF EACH STATE'S UNTAPPED TAX CAPACITY, BY STATE AND REGION

(Dollar amounts in millions)

State and region	Actual State-local tax collections 1970-71 (1)	Most stringent capacity test[1]			Intermediate capacity test[2]			Least stringent capacity test[3]		
		Potential capacity (2)	Untapped capacity		Potential capacity (5)	Untapped capacity		Potential capacity (8)	Untapped capacity	
			Amount [col.(2)-col.(1)] (3)	% of actual collections (4)		Amount [col.(5)-col.(1)] (6)	% of actual collections (7)		Amount [col.(8)-col.(1)] (9)	% of actual collections (10)
United States[4]	$94,541.0	$129,298.7	$34,757.7	36.8	$120,145.6	$25,604.6	27.1	$110,992.6	$16,451.6	17.4
New England	(6,173.6)	(7,557.7)	(1,384.1)	(22.4)	(7,262.7)	(1,089.1)	(17.6)	(6,967.8)	(794.2)	(12.9)
Maine	412.3	508.2	95.9	23.3	488.4	76.1	18.5	468.6	56.3	13.7
New Hampshire	285.9	502.0	216.1	75.6	482.4	196.5	68.7	462.8	176.9	61.9
Vermont	226.8	246.0	19.2	8.5	236.4	9.6	4.2	226.8	-0-	-0-
Massachussetts	3,158.5	3,559.2	400.7	12.7	3,420.2	261.7	8.3	3,281.3	122.8	3.9
Rhode Island	447.3	531.0	83.7	18.7	510.3	63.0	14.1	489.6	42.3	9.5
Connecticut	1,642.8	2,211.3	568.5	34.6	2,125.0	482.2	29.4	2,038.7	395.9	24.1
Mideast	(23,893.8)	(27,340.5)	(3,446.7)	(14.4)	(27,340.5)	(3,446.7)	(14.4)	(27,340.5)	(3,446.7)	(14.4)
New York	12,664.2	12,664.2	-0-	-0-	12,664.2	-0-	-0-	12,664.2	-0-	-0-
New Jersey	3,639.5	4,900.3	1,260.8	34.6	4,900.3	1,260.8	34.6	4,900.3	1,260.8	34.6
Pennsylvania	5,278.7	6,841.3	1,562.6	29.6	6,841.3	1,562.6	29.6	6,841.3	1,562.6	29.6
Delaware	278.7	409.6	130.9	47.0	409.6	130.9	47.0	409.6	130.9	47.0
Maryland	2,032.7	2,525.1	492.4	24.2	2,525.1	492.4	24.2	2,525.1	492.4	24.2
Great Lakes	(18,604.2)	(25,894.1)	(7,289.9)	(39.2)	(25,364.5)	(6,760.3)	(36.3)	(24,834.7)	(6,230.5)	(33.5)
Michigan	4,420.6	6,014.2	1,593.6	36.1	5,891.2	1,470.6	33.3	5,768.3	1,347.7	30.5
Ohio	3,921.8	6,599.0	2,677.2	68.3	6,464.1	2,542.3	64.8	6,329.2	2,407.4	61.4
Indiana	2,118.6	3,058.9	940.3	44.4	2,996.4	877.8	41.4	2,933.8	815.2	38.5
Illinois	5,749.0	7,725.1	1,976.1	34.4	7,567.2	1,818.2	31.6	7,409.2	1,660.2	28.9
Wisconsin	2,394.2	2,496.9	102.7	4.3	2,445.6	51.4	2.2	2,394.2	-0-	-0-
Plains	(7,076.5)	(10,231.2)	(3,154.7)	(44.6)	(9,359.8)	(2,283.3)	(32.3)	(8,488.4)	(1,411.9)	(20.0)
Minnesota	1,931.6	2,327.9	396.3	20.5	2,129.8	198.2	10.3	1,931.6	-0-	-0-
Iowa	1,285.6	1,764.3	478.7	37.2	1,614.0	328.4	25.5	1,463.7	178.1	13.9
Missouri	1,712.5	2,871.8	1,159.3	67.7	2,627.2	914.7	53.4	2,382.5	670.0	39.1
North Dakota	262.2	343.5	81.3	31.0	314.2	52.0	19.8	284.9	22.7	8.7
South Dakota	291.7	372.7	81.0	27.8	341.0	49.3	16.9	309.2	17.5	6.0
Nebraska	652.8	1,012.9	360.1	55.2	926.5	273.7	41.9	840.4	187.6	28.7
Kansas	940.1	1,538.1	598.0	63.6	1,407.1	467.0	49.7	1,276.1	336.0	35.7
Southeast	(14,861.8)	(24,187.0)	(9,325.2)	(62.8)	(20,515.4)	(5,653.6)	(38.0)	(16,843.8)	(1,982.0)	(13.3)
Virginia	1,755.0	2,678.4	923.4	52.6	2,271.8	516.8	29.5	1,865.3	110.3	6.3
West Virginia	585.1	878.0	292.9	50.1	744.8	159.7	27.3	611.5	26.4	4.5
Kentucky	1,038.1	1,697.8	659.7	63.6	1,440.0	401.9	38.7	1,182.3	144.2	13.9
Tennessee	1,204.8	2,029.6	824.8	68.5	1,721.5	516.7	42.9	1,413.4	208.6	17.3

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North Carolina	1,730.5	2,678.6	948.1	54.8	2,272.0	541.5	31.3	1,865.4	134.9	7.8
South Carolina	781.6	1,140.5	358.9	45.9	967.4	185.8	23.8	794.2	12.6	1.6
Georgia	1,548.7	2,491.0	942.3	60.8	2,112.9	564.2	36.4	1,734.8	186.1	12.0
Florida	2,637.8	4,731.4	2,093.6	79.4	4,013.2	1,375.4	52.1	3,295.0	657.2	24.9
Alabama	959.2	1,624.3	665.1	69.3	1,377.8	418.6	43.6	1,131.2	172.0	17.9
Mississippi	701.6	1,007.8	306.2	43.6	854.7	153.1	21.8	701.6	-0-	-0-
Louisiana	1,396.5	2,221.7	825.2	59.1	1,884.4	487.9	34.9	1,547.2	150.7	10.8
Arkansas	522.9	1,007.9	485.0	92.8	854.9	332.0	63.5	701.9	179.0	34.2
Southwest	(6,027.9)	(10,776.5)	(4,748.6)	(78.8)	(9,370.9)	(3,343.0)	(55.5)	(7,965.5)	(1,937.6)	(32.1)
Oklahoma	843.0	1,700.0	857.0	101.7	1,478.3	635.3	75.4	1,256.6	413.6	49.1
Texas	3,926.9	7,308.2	3,381.3	86.1	6,355.0	2,428.1	61.8	5,401.9	1,475.0	37.6
New Mexico	402.9	611.4	208.5	51.8	531.6	128.7	31.9	451.9	49.0	12.2
Arizona	855.1	1,156.9	301.8	35.3	1,006.0	150.9	17.7	855.1	-0-	-0-
Rocky Mountain	(2,202.9)	(3,226.9)	(1,024.0)	(46.5)	(2,807.0)	(604.1)	(27.4)	(2,387.2)	(184.3)	(8.4)
Montana	299.3	452.1	152.8	51.1	393.2	93.9	31.4	334.4	35.1	11.7
Idaho	291.9	424.2	132.3	45.3	369.0	77.1	26.4	313.8	21.9	7.5
Wyoming	164.2	300.2	136.0	82.8	261.2	97.0	59.1	222.1	57.9	35.3
Colorado	1,021.6	1,474.7	453.1	44.4	1,282.8	261.2	25.6	1,091.0	69.4	6.8
Utah	425.9	575.7	149.8	35.2	500.8	74.9	17.6	425.9	-0-	-0-
Far West[5]	(15,070.0)	(19,360.3)	(4,290.3)	(28.5)	(17,447.4)	(2,377.4)	(15.8)	(15,534.5)	(464.5)	(3.1)
Washington	1,679.3	2,276.5	597.2	35.6	2,051.6	372.3	22.2	1,826.6	147.3	8.8
Oregon	898.0	1,351.1	453.1	50.5	1,217.6	319.6	35.6	1,084.0	186.0	20.7
Nevada	293.7	529.6	235.9	80.3	477.2	183.5	62.5	424.9	131.2	44.7
California	12,199.0	15,203.1	3,004.1	24.6	13,701.0	1,502.0	12.3	12,199.0	-0-	-0-
Alaska	146.0	191.1	45.1	30.9	168.6	22.6	15.5	146.0	-0-	-0-
Hawaii	484.2	533.4	49.2	10.2	508.8	24.6	5.1	484.2	-0-	-0-

Note: The relative tax effort provides the foundation for estimating a State's untapped relative tax potential. Actual State-local tax collections are compared to three different levels of potential tax collections determined on the grounds that State policymakers will be reluctant to push their State's tax effort beyond that of States competing for economic growth and development.

[1] The amount of potential revenue a State could raise if it made the same tax effort as the Nation's highest tax effort State—in this case, New York.

[2] The amount of potential revenue a State could raise if it made a tax effort midway between the highest tax effort State in the Nation and the highest tax effort State in its region.

[3] The amount of potential revenue a State could raise if it made the same tax effort as the highest tax effort State in its region.

[4] Excluding the District of Columbia.

[5] Excluding Alaska and Hawaii.

Source: ACIR Staff calculations.

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Rhode Island appear to be in a tight fiscal situation.*

At the lower extreme, a State's untapped relative tax potential could be viewed as the difference between actual collections and that which could be raised if the State made the same tax effort as the highest tax effort State in its region. Using this least stringent test almost half the States still had untapped relative tax capacity in excess of 20 percent of actual tax collections in 1971.

The regional figures are relevant if interstate competition exists primarily among States within a region, while the National figures are relevant if each State considers itself in competition with every other State. In reality, State policymakers probably conceive of interstate competition as lying somewhere between these two extremes.

Thus, the most realistic relative tax capacity test may be one that "splits the difference" by saying, in effect, that the amount of potential revenue a State could raise is midway between the highest tax effort State in the Nation (New York) and the highest tax effort State in its region. This approach recognizes that State policymakers may have one eye cocked on what neighbor States are doing and the other eye on what National experience shows is possible. Using this intermediate approach, there are 36 States in a relatively strong fiscal position—with untapped relative tax potential in excess of 20 percent of actual collections. All of the southeastern States fall into this category.

Even this "middling" approach to tax capacity may fail to satisfy those who think tax capacity and effort can be more finely honed. Some would argue, for example, that the sacrifice of a dollar to the public sector is much greater in a poor State than in a rich State and perhaps the least that should be done to make fiscal data comparable is to subtract from fiscal capacity in each State the amount of money each person requires for bare subsistence purposes, say $750 per capita. Others would minimize the role of interstate tax competition in State tax policymaking on three grounds. Many individuals and businesses are simply unaware of interstate tax differentials and therefore are not motivated by them. Businesses which presumably are most aware of tax differentials focus their concern on specific taxes like the corporate income tax rather than on the State-local tax burden in general. Individuals and businesses inevitably must also concern themselves with the scope and adequacy of public services which a tax analysis skirts completely.

*Hawaii does not confront a potential equalization requirement and is therefore excluded here.

Effort Required to Level-Up

The next step is to relate leveling-up costs to the amount of untapped relative tax capacity in order to show the degree of fiscal difficulty individual States will encounter in meeting leveling-up costs. The leveling-up costs as percentages of untapped tax potential measured by the three standards are shown in Tables 37, 38 and 39.

Forty-one States would need less than 20 percent of their untapped relative tax capacity to finance the cost of leveling up per-pupil expenditures to the 80th pupil-percentile level using the stringent test of untapped potential. (*See Table 37.*) (In Hawaii the State finances the school system and thereby avoids the intrastate disparities.) For leveling up to the 50th percentile, only Massachusetts, Vermont, Wisconsin and New York would need more than 10 percent of untapped potential.*

When the untapped capacity is defined on a regional basis, 32 States are still able to finance leveling-up to the 80th pupil percentile with less than half of their untapped capacity. (*See Table 38.*) Only the eight regional leaders are unable to level-up to the 50th percentile with less than half of untapped capacity. (Alaska and Hawaii are excluded in the regional comparisons.)

Using the intermediate measure of untapped tax capacity, New York, Vermont and Wisconsin would need more than their entire untapped relative tax capacity in leveling-up to the 80th percentile. (*See Table 39.*) All other States except Arizona would need less than fifty percent of their untapped relative tax capacity.

Revenue Sharing and Welfare Reform—Fiscal Effects

The prospect that New York and other States lacking in untapped relative fiscal capacity could meet leveling-up requirements has been brightened somewhat by passage of revenue sharing, *The State and Local Fiscal Assistance Act of 1972 (P.L. 92-512)*. The Act adds about $1.7 billion annually to the untapped State tax capacity figures. *(See Table 40.)*

Over the longer run, the States may gain added revenue potential from resources freed up by changes in welfare legislation. The 1972 Social Security Act Amendments, in effect, nationalized three welfare categories—old-age assistance, aid to the blind, and aid to the permanently and totally disabled—effective January 1, 1974. As of June 1972, approximately 3.2 million individuals received as-

*Because the highest effort State is defined here to have no untapped capacity, New York has no untapped potential.

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Table 37

Leveling-Up Costs as Percentages of Untapped Tax Capacity Computed on a National Basis (most stringent test), by State and Region, 1969-70 (dollar amount in millions)

State & Region	Untapped Tax Capacity (most stringent capacity test)	Leveling-Up Cost at Selected Per-Pupil Expenditure Percentiles As a Percent of Untapped Capacity				
		90th	80th	70th	60th	50th
United States	**$33,825.6**	**20.5**	**12.8**	**9.2**	**6.8**	**4.9**
New England						
Maine	94.4	27.6	20.4	13.1	9.7	7.3
New Hampshire	219.2	8.8	6.0	4.2	2.3	1.6
Vermont	18.1	133.1	87.8	77.3	55.2	34.2
Massachusetts	478.6	54.3	29.0	17.1	13.2	11.2
Rhode Island	105.8	45.6	18.6	14.5	8.7	5.9
Connecticut	625.9	22.4	15.1	11.5	6.8	4.6
Mideast						
New York	-0-	xx	xx	xx	xx	xx
New Jersey	1,332.4	23.8	14.2	9.5	6.5	4.3
Pennsylvania	1,620.9	31.1	24.3	13.0	8.5	5.0
Delaware	137.7	23.7	5.7	4.2	2.3	1.2
Maryland	414.2	45.6	8.1	8.1	7.0	4.4
Great Lakes						
Michigan	1,692.2	21.5	12.7	8.9	7.9	6.4
Ohio	2,601.2	19.9	11.2	8.1	6.2	3.8
Indiana	1,092.2	11.8	8.3	7.8	5.4	3.9
Illinois	1,895.5	24.1	18.1	18.1	12.3	6.7
Wisconsin	73.4	138.0	91.7	59.4	38.3	38.3
Plains						
Minnesota	455.6	26.5	19.2	14.8	9.2	6.5
Iowa	415.0	22.7	11.6	8.7	7.2	4.0
Missouri	1,050.6	11.6	11.5	7.0	5.4	3.5
North Dakota	106.2	18.5	15.3	9.0	6.3	5.7
South Dakota	88.9	25.2	14.1	7.9	4.2	4.2
Nebraska	364.8	14.7	6.3	4.0	3.7	3.0
Kansas	531.0	14.3	5.8	3.8	2.8	2.8
Southeast						
Virginia	854.2	17.0	17.0	9.2	6.0	3.2
West Virginia	260.2	12.8	7.1	5.3	4.9	2.9
Kentucky	599.3	10.5	10.5	6.0	2.9	2.0
Tennessee	789.3	12.5	9.2	7.8	5.0	2.4
North Carolina	890.8	10.7	5.6	4.8	4.0	2.8
South Carolina	341.8	9.1	6.4	4.9	2.5	2.4
Georgia	885.1	20.0	7.4	3.5	3.3	2.4
Florida	1,889.4	6.8	6.8	4.9	2.7	2.2
Alabama	604.9	7.3	4.2	3.3	2.5	1.2
Mississippi	262.7	17.4	15.1	9.6	7.4	5.2
Louisiana	859.4	7.0	3.9	2.6	1.9	1.8
Arkansas	442.0	9.3	5.1	4.1	3.3	2.1
Southwest						
Oklahoma	767.7	8.1	5.4	3.6	2.1	1.3
Texas	3,089.8	9.5	5.5	3.7	2.4	1.9
New Mexico	194.3	13.3	7.9	3.0	1.7	0.5
Arizona	272.6	35.6	25.6	16.5	7.7	6.2

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State & Region	Untapped Tax Capacity (most stringent capacity test)	Leveling-Up Cost at Selected Per-Pupil Expenditure Percentiles As a Percent of Untapped Capacity				
		90th	80th	70th	60th	50th
Rocky Mountain						
Montana	135.4	50.5	28.8	16.8	14.9	8.7
Idaho	138.6	26.1	11.6	11.6	7.9	4.4
Wyoming	123.0	23.7	14.2	7.6	3.7	1.2
Colorado	393.7	18.5	18.5	12.7	5.4	4.7
Utah	123.0	10.5	7.5	5.5	1.4	1.1
Far West						
Washington	692.4	17.4	13.1	9.5	7.5	5.1
Oregon	424.9	14.6	8.9	5.3	4.4	4.4
Nevada	230.8	3.6	0.6	0.6	•	•
California	3,072.5	26.6	14.8	8.7	7.2	6.1
Alaska	604.9	7.3	4.2	3.3	2.5	1.2
Hawaii	27.8	—	—	—	—	—

xx New York is defined as having no untapped tax capacity.
• Less than 0.05 Percent.
— Hawaii's single State school system precludes "wealth-based" per-pupil expenditure differentials.

Source: ACIR Staff; for additional information see text.

Table 38

Leveling-Up Costs as Percentages of Untapped Tax Capacity on a Regional Basis (least stringent test), by State and Region, 1969-70
(dollar amounts in millions)

State and Region	Untapped Tax Capacity (least stringent capacity test)	Leveling-Up Cost at Selected Per-Pupil Expenditure Percentiles As a Percent of Untapped Capacity				
		Percentiles				
		90th	80th	70th	60th	50th
United States	**$16,837.0**	**41.2**	**25.7**	**18.4**	**13.6**	**9.9**
New England						
Maine	56.7	46.0	34.0	21.9	16.2	12.2
New Hampshire	182.1	10.6	7.2	5.1	2.8	2.0
Vermont	-0-	xx	xx	xx	xx	xx
Massachusetts	214.3	121.3	64.9	38.2	29.5	25.0
Rhode Island	66.4	72.6	29.7	23.2	13.9	9.3
Connecticut	458.4	30.7	20.6	15.7	9.3	6.3
Mideast						
New York	-0-	xx	xx	xx	xx	xx
New Jersey	1,332.4	23.8	14.2	9.5	6.5	4.3
Pennsylvania	1,620.9	31.1	24.3	13.0	8.5	5.0
Delaware	137.7	23.7	5.7	4.2	2.3	1.2
Maryland	414.2	45.5	8.1	8.1	7.0	4.4
Great Lakes						
Michigan	1,511.0	24.1	14.3	9.9	8.8	7.2
Ohio	2,403.5	21.6	12.1	8.8	6.7	4.1

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State & Region	Untapped Tax Capacity (most stringent capacity test)	Leveling-Up Cost at Selected Per-Pupil Expenditure Percentiles As a Percent of Untapped Capacity				
		90th	80th	70th	60th	50th
Indiana	999.1	12.9	9.1	8.5	5.9	4.3
Illinois	1,664.7	27.4	20.6	20.6	14.0	7.6
Wisconsin	-0-	xx	xx	xx	xx	xx
Plains						
Minnesota	-0-	xx	xx	xx	xx	xx
Iowa	63.8	147.5	75.7	56.9	46.6	25.7
Missouri	485.0	25.1	24.9	15.1	11.6	7.6
North Dakota	34.1	57.8	47.8	28.2	19.6	17.9
South Dakota	13.4	167.2	93.3	52.2	27.6	27.6
Nebraska	161.6	33.3	14.2	9.1	8.4	6.5
Kansas	228.7	33.3	13.4	8.8	6.4	6.4
Southeast						
Virginia	157.0	92.4	92.4	50.3	32.7	17.6
West Virginia	35.4	93.8	52.5	39.3	36.2	16.7
Kentucky	152.2	41.3	41.3	23.7	11.4	8.0
Tennessee	249.6	39.6	29.2	24.8	15.9	7.7
North Carolina	183.5	51.8	27.4	23.5	19.3	3.8
South Carolina	40.6	76.8	54.2	41.6	21.2	20.4
Georgia	222.1	79.5	29.6	14.0	13.0	9.·
Florida	674.3	19.0	19.0	13.7	7.7	6.2
Alabama	176.7	25.1	14.3	11.4	8.4	4.0
Mississippi	-0-	xx	xx	xx	xx	xx
Louisiana	268.2	22.4	12.3	8.3	6.1	5.7
Arkansas	176.9	23.2	12.7	10.2	8.3	5.2
Southwest						
Oklahoma	355.6	17.4	11.6	7.8	4.8	4.7
Texas	1,327.4	22.2	12.7	8.5	5.5	4.3
New Mexico	45.6	58.6	33.8	12.7	7.2	2.4
Arizona	-0-	xx	xx	xx	xx	xx
Rocky Mountain						
Montana	38.0	180.0	102.6	60.0	53.2	31.1
Idaho	47.2	76.7	34.1	34.1	23.3	12.9
Wyoming	59.8	48.8	29.3	15.7	7.5	2.5
Colorado	81.8	89.1	89.1	61.2	25.9	22.7
Utah	-0-	xx	xx	xx	xx	xx
Far West						
Washington	217.5	55.5	41.8	30.3	24.0	16.3
Oregon	153.0	40.5	24.8	14.8	12.1	12.1
Nevada	126.6	6.6	1.1	1.1	0.1	0.1
California	-0-	xx	xx	xx	xx	xx
Alaska	-0-	xx	xx	xx	xx	xx
Hawaii	-0-	xx	xx	xx	xx	xx

xx State defined as having no untapped tax capacity.

— Hawaii's single State school system precludes "wealth-based" pupil expenditure differentials.

Source: ACIR Staff; for additional information see text.

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Table 39

Leveling-Up Costs as Percentages of Untapped Tax Capacity Computed on An Intermediate Capacity Test Basis, by State and Region, 1969-70

(dollar amounts in millions)

State and Region	Untapped tax capacity (Intermediate capacity test)	Leveling-up cost at selected per-pupil expenditure percentiles as a percent of untapped tax capacity				
		90th	80th	70th	60th	50th
United States	**$25,332.3**	**27.4**	**17.1**	**12.2**	**9.0**	**6.6**
New England						
Maine	75.6	34.5	25.5	16.4	12.2	9.1
New Hampshire	200.6	9.6	6.5	4.6	2.5	1.8
Vermont	9.1	264.8	174.7	153.8	109.9	68.1
Massachusetts	346.5	75.0	40.1	23.6	18.2	15.5
Rhode Island	86.1	56.0	22.9	17.9	10.7	7.2
Connecticut	542.2	25.9	17.4	13.2	7.9	5.4
Mideast						
New York	-0-	xx	xx	xx	xx	xx
New Jersey	1,332.4	23.8	14.2	9.5	6.5	4.3
Pennsylvania	1,620.9	31.1	24.3	13.0	8.5	5.0
Delaware	137.7	23.7	5.7	4.2	2.3	1.2
Maryland	414.2	45.5	8.1	8.1	7.0	4.4
Great Lakes						
Michigan	1,601.6	22.8	13.5	9.4	8.3	6.8
Ohio	2,502.4	20.7	11.6	8.4	6.5	3.9
Indiana	1,045.7	12.3	8.7	8.1	5.7	4.1
Illinois	1,780.1	25.6	19.2	19.2	13.1	7.1
Wisconsin	36.7	276.0	183.4	118.8	76.6	76.6
Plains						
Minnesota	227.8	52.9	38.4	29.6	18.4	13.0
Iowa	239.4	39.3	20.2	15.2	12.4	6.9
Missouri	767.8	15.9	15.7	9.5	7.3	4.8
North Dakota	70.2	28.1	23.2	13.7	9.5	8.7
South Dakota	51.2	43.8	24.4	13.7	7.2	7.2
Nebraska	263.2	20.4	8.7	5.6	5.2	4.0
Kansas	379.9	20.0	8.1	5.3	3.9	3.9
Southeast						
Virginia	505.6	28.7	28.7	15.6	10.2	5.5
West Virginia	147.8	22.5	12.6	9.4	8.7	4.0
Kentucky	375.8	16.7	16.7	9.6	4.6	3.2
Tennessee	519.5	19.0	14.0	11.9	7.7	3.7
North Carolina	537.2	17.7	9.3	8.0	6.6	4.7
South Carolina	191.2	16.3	11.5	8.8	4.5	4.3
Georgia	553.6	31.9	11.9	5.6	5.2	3.8
Florida	1,281.9	10.0	10.0	7.2	4.0	3.3
Alabama	390.8	11.3	6.4	5.1	3.8	1.8
Mississippi	131.4	34.8	30.2	19.3	14.8	10.4
Louisiana	563.8	10.7	5.9	3.9	2.9	2.7
Arkansas	309.5	13.2	7.2	5.8	4.7	3.0
Southwest						
Oklahoma	561.7	11.0	7.4	5.0	3.0	3.0
Texas	2,208.6	13.4	7.6	5.1	3.3	2.6
New Mexico	120.0	22.3	12.8	4.8	2.8	0.9
Arizona	136.3	71.2	51.1	35.8	15.4	12.3

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State and Region,	Untapped Tax Capacity (most stringent capacity test)	Leveling-Up Cost at Selected Per-Pupil Expenditure Percentiles As a Percent of Untapped Capacity				
		90th	80th	70th	60th	50th
Rocky Mountain						
Montana	86.7	78.9	45.0	26.3	23.3	13.6
Idaho	92.9	39.0	17.3	17.3	11.8	6.6
Wyoming	91.4	31.9	19.1	10.3	4.9	1.6
Colorado	237.8	30.7	30.7	21.1	8.9	7.8
Utah	61.5	21.0	15.0	11.1	2.8	2.1
Far West						
Washington	455.0	26.5	20.0	14.5	11.5	7.8
Oregon	289.0	21.5	13.1	7.9	6.4	6.4
Nevada	178.7	4.6	0.8	0.8	0.1	0.1
California	1,536.3	53.1	29.7	17.4	14.5	12.1
Alaska	23.1	48.5	42.9	19.5	2.2	2.2
Hawaii	13.9	—	—	—	—	—

xx New York is defined as having no untapped tax capacity.

— Hawaii's single State school system precludes "wealth-based" per pupil expenditure differentials.

Source: ACIR Staff; for additional information see text.

Table 40

Leveling-Up Costs as Percentages of Untapped Tax Capacity (Intermediate Capacity Test[1]) Plus Funds from Revenue Sharing by State and Region, 1970-71

State and Region	Untapped Revenue Capacity ($millions)			Leveling-up cost at selected per-pupil expenditure percentiles as a percent of untapped tax capacity plus funds from revenue sharing				
	Untapped tax capacity (Intermediate capacity test)	Revenue Sharing[2] P.L. 92-512)	Total	90th	80th	70th	60th	50th
United States	**$25,604.6**	**1,724.3**	**$27,328.9**	**25.4**	**15.9**	**11.3**	**8.4**	**6.1**
New England								
Maine	76.1	10.0	86.1	30.3	22.4	14.4	10.7	8.0
New Hampshire	196.5	5.4	201.9	9.6	6.5	4.6	2.5	1.8
Vermont	9.6	4.8	14.4	167.4	110.4	97.2	69.4	43.1
Massachusetts	261.7	53.4	315.1	82.5	44.1	26.0	20.1	17.0
Rhode Island	63.0	7.8	70.8	68.1	27.8	21.8	13.0	8.8
Connecticut	482.2	21.7	503.9	27.9	18.8	14.2	8.5	5.8
Mideast								
New York	-0-	190.4	190.4	320.0	174.0	174.0	174.0	155.8
New Jersey	1,260.8	53.9	1,314.7	24.2	14.4	9.7	6.6	4.3
Pennsylvania	1,562.6	89.9	1,652.5	30.5	23.8	12.7	8.3	5.0
Delaware	130.9	6.3	137.2	23.8	5.7	4.2	2.3	1.2
Maryland	492.4	34.6	527.0	35.8	6.3	6.3	5.5	3.5
Great Lakes								
Michigan	1,470.6	72.6	1,543.2	23.6	14.0	9.7	8.7	7.0
Ohio	2,542.3	69.2	2,611.5	19.9	11.1	8.1	6.2	3.8
Indiana	877.8	36.8	914.6	14.1	9.9	9.3	6.5	4.7

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State & Region	Untapped tax capacity (Intermediate capacity test)	(Revenue Sharing[2] P.L. 92-512)	Total	Leveling-up Cost at Selected Per-Pupil Expenditure Percentiles As a Percent of Untapped Tax Capacity Plus Funds from Revenue Sharing				
				90th	80th	70th	60th	50th
Illinois	1,818.2	88.6	1,906.8	23.9	18.0	18.0	12.2	6.6
Wisconsin	51.4	43.1	94.5	107.2	71.2	46.1	29.7	29.7
Plains								
Minnesota	198.2	34.4	232.6	51.8	37.6	29.0	18.0	12.7
Iowa	328.4	24.4	352.8	26.7	13.7	10.3	8.4	4.6
Missouri	914.7	31.8	946.5	12.9	12.7	7.7	6.0	3.9
North Dakota	52.0	7.2	59.2	33.3	27.5	16.2	11.3	10.3
South Dakota	49.3	7.8	57.1	39.2	21.9	12.3	6.5	6.5
Nebraska	273.7	12.6	286.3	18.8	8.0	5.1	4.8	3.7
Kansas	467.0	17.0	484.0	15.7	6.3	4.2	3.0	3.0
Southeast								
Virginia	516.8	34.4	551.2	26.3	26.3	14.3	9.3	5.0
West Virginia	159.7	22.8	182.5	18.2	10.2	7.6	7.0	3.2
Kentucky	401.9	34.9	436.8	14.4	14.4	8.2	4.0	2.8
Tennessee	516.7	32.0	548.7	18.0	13.3	11.3	7.3	3.5
North Carolina	541.5	44.0	585.5	16.2	8.6	7.4	6.0	4.3
South Carolina	185.8	23.9	209.7	14.9	10.5	8.1	4.1	4.0
Georgia	564.2	35.5	599.7	29.4	11.0	5.2	4.8	3.5
Florida	1,375.4	47.4	1,422.8	9.0	9.0	6.5	3.6	2.9
Alabama	418.6	29.3	447.9	9.9	5.6	4.5	3.3	1.6
Mississippi	153.1	29.1	182.2	7.3	6.3	4.0	3.1	2.2
Louisiana	487.9	40.3	528.2	11.4	6.3	4.2	3.1	2.9
Arkansas	332.0	19.1	351.1	11.7	6.4	5.2	4.2	2.6
Southwest								
Oklahoma	635.3	19.1	654.4	9.5	6.3	4.3	2.6	2.6
Texas	2,428.1	80.3	2,508.4	11.8	6.7	4.5	2.9	2.3
New Mexico	128.7	11.1	139.8	19.1	11.0	4.1	2.4	0.8
Arizona	150.9	16.2	167.1	58.1	41.7	29.2	12.6	10.1
Rocky Mountain								
Montana	93.9	6.6	100.5	68.1	38.8	22.7	20.1	11.7
Idaho	77.1	6.9	84.0	43.1	19.2	19.2	13.1	7.3
Wyoming	97.0	3.2	100.2	29.1	17.5	9.4	4.5	1.5
Colorado	261.2	17.6	278.8	26.1	26.1	18.0	7.6	6.7
Utah	74.9	9.9	84.8	15.2	10.8	8.0	2.0	1.5
Far West								
Washington	372.3	25.2	397.5	30.4	22.9	16.6	13.1	8.9
Oregon	319.6	17.1	336.7	18.4	11.3	6.7	5.5	5.5
Nevada	183.5	3.7	187.2	4.4	0.8	0.7	0.1	0.1
California	1,502.0	181.2	1,683.2	48.5	27.1	15.9	13.2	11.1
Alaska	22.6	2.1	24.7	45.3	40.1	18.2	2.0	2.0
Hawaii	24.6	7.7	32.3	-0-	-0-	-0-	-0-	-0-

[1]The amount of potential revenue a State could raise if it made a tax effort midway between the highest tax effort State in the Nation (New York) and the highest tax effort State in its region.

[2]First year receipts (1st and 2nd payments) as published by the U. S. Treasury Department, Office of Revenue Sharing.

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Table 41

A Ranking of States on the Basis of Leveling-Up Costs (to the 80th percentile) as Percentages of Untapped Revenue Capacity[1]

Well Off—1 State	**In Good Shape—17 States**	**Somewhat Pinched—9 States**
Nevada (0.8)	West Virginia (10.2)	South Dakota (21.9)
Moderately Well Off—14 States	South Carolina (10.5)	Maine (22.4)
Alabama (5.6)	Utah (10.8)	Washington (22.9)
Delaware (5.7)	Georgia (11.0	Pennsylvania (23.8)
Kansas (6.3)	New Mexico (11.0)	Colorado (26.1)
Louisiana (6.3)	Ohio (11.1)	Virginia (26.3)
Maryland (6.3)	Oregon (11.3)	California (27.1)
Mississippi (6.3)	Missouri (12.7)	North Dakota (27.5)
Oklahoma (6.3)	Tennessee (13.3)	Rhode Island (27.8)
Arkansas (6.4)	Iowa (13.7)	**Pinched—4 States**
New Hampshire (6.5)	Michigan (14.0)	Minnesota (37.6)
Texas (6.7)	Kentucky (14.4)	Montana (38.8)
Nebraska (8.0)	New Jersey (14.4)	Arizona (41.7)
North Carolina (8.6)	Wyoming (17.5)	Massachusetts (44.1)
Florida (9.0)	Illinois (18.0)	**In Poor Shape—3 States**
Indiana (9.9)	Connecticut (18.8)	Wisconsin (71.2)
	Idaho (19.2)	Vermont (110.4)
		New York (174.0)

Note: Hawaii and Alaska are excluded as non-comparable States.

[1]See table 40 for detail.

sistance under those categories from Federal, State and local funds, totalling more than $3 billion.

Table 40 highlights the amount of untapped State revenue capacity needed to meet leveling-up costs which are expressed at various pupil percentile expenditure levels. Untapped revenue capacity is the sum of untapped tax capacity as defined by the intermediate test and the State funds provided under P.L. 92-512. Vermont and New York would need to use all the new Federal funds as well as all of their untapped relative tax potential in order to level-up to the 80th pupil percentile according to this calculation. Wisconsin is the only other State that would require as much as 50 percent of its untapped revenue capacity to level-up to the 80th pupil percentile.

To answer the question of whether States have sufficient untapped capacity to equalize school finance, it is necessary to specify certain criteria of performance. *(See Table 41.)* The measure of untapped relative revenue potential is the intermediate tax capacity test plus anticipated funds from *P.L. 92-512.* States are then classified according to the percentage of capacity (shown in parentheses) they would use up in meeting the equalization test of leveling up per-pupil expenditures to the 80th percentile. States that would use little of their untapped potential are classified as "well off" while those that would need virtually all of their untapped potential are classified as "in poor shape". On the basis of these criteria the preponderant number of States would need less than one-fifth of their untapped revenue potential to level up to the 80th per-pupil spending percentile.

Thus, Federal aid to help States to reduce school spending disparities could hardly be justified on the grounds that the monetary costs imposed by the court decisions or by conscious public policy are an insurmountable fiscal burden for the States.

Projections to 1980

It is possible that school finance reform might be within the States' means at present, but likely to outstrip the States' capacity in the future. But a careful look at projections of school enrollments through 1980 does not indicate any hidden crisis lurking just around the corner.[2] Due primarily to the recent dramatic decline in the birth rate, the U. S. Office of Education projects enrollments at the same level in 1980 as in 1970. Another projection estimates an increase of only 0.6 percent. This contrasts with an increase of 29.7 percent from 1960 to 1970. Under

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reasonable assumptions the total increase in school costs from 1970 to 1980 is projected by various forecasts between 48.6 percent and 107.4 percent. With a tax structure elasticity near 1.0, States could finance this growth of expenditures without any increase in tax rates for schools, assuming the economy continues to grow at about the same rate as during the last decade.

State tax collections rise each year more or less automatically as a result of economic growth. Therefore, with no change in tax rates, legal base and administrative procedures, a State's tax system will produce additional revenues.[3] While each State's experience differs from year to year as to the amount of revenue made available by "automatic" growth, State policymakers have come to count on this source to offset rising outlays.

Some would argue that while enrollment trends point to a decline in school spending, three specific program areas stand out as potential sources of additional fiscal pressure on the States: strengthening of inner-city schools; education of the physically handicapped and mentally retarded; and pre-primary education especially as a response to the needs of poor children.

Expenditure expansion in these three areas could conceivably require $3 to $5 billion of additional State revenue within a very few years.

Those who would argue that States have ample fiscal capacity note that the prospects for easing the fiscal requirements of the States extends to the revenue side as well. As public welfare programs are converted from a joint State-Federal undertaking to a largely Federal responsibility, the States will experience substantial fiscal relief. Charles Saunders, Deputy Commissioner for External Relations of the U. S. Office of Education told a meeting of State legislative leaders from the Southeastern States that H.R. 1, the welfare reform bill before the 92nd Congress, if enacted, would provide $2.3 billion in fiscal relief for the States in fiscal year 1974. By fiscal year 1977, the last year for which solid estimates are available, fiscal relief to the States would be $3.4 billion, not counting savings from Federal administration. Fiscal relief brought about by possible Federal takeover of welfare financing combined with the $300 million annual growth of revenue sharing with the States makes it difficult to foresee any State fiscal crisis in the near term.

It seems reasonable to conclude, therefore, that the fiscal capacity of most States is adequate to finance the additional public school expenditures that may be required in efforts to comply with *Serrano*-type court decisions, both now and in the future. But a full appraisal of the ability of the States to act also requires an evaluation of the political difficulties involved. It is in this area that the situation might be considered less promising.

The Political Obstacles

In practical terms fiscal capacity has two dimensions. One dimension has been illustrated by the "untapped capacity" measure developed here. The other dimension is "effective" fiscal capacity—the untapped tax capacity that political leaders can turn into actual tax collections.

Effective fiscal capacity is harder to quantify. For example, we know that taxpayer attitudes toward specific taxes differ from State to State. An Oregonian will not support a sales tax, a Washingtonian will oppose a personal income tax, New Hampshire residents want to avoid both types of taxes. We also know that each State's tax system reflects the history of that State's past tax actions. More importantly, each State's tax system reflects the ability of its political leadership to convince people that public sector activities are of sufficient merit to warrant the sacrifice taxation implies. Competition for the State tax dollar is intense; education is only one of the State-financed activities making substantial claims on new State revenue.

State efforts on the equalization front pose substantially similar political problems for State leaders. Equalization forces a difficult choice between increasing taxes to finance leveling-up and, equally unpalatable, reducing the expenditures of wealthy districts or transferring a portion of their resources to poorer districts. The representatives of wealthier districts must be persuaded to accede to a shift of resources, either through higher taxes or through actual transfer, from their districts to the poorer ones. Moreover, State legislators may have to consider placing a lid on the amount their local constituents can spend on schools. Even Congress, with the Nation's tax potential at its disposal, has no effective fiscal capacity when it seeks to support a program lacking in public support—e.g., assisting the States to buy school buses.

State political leadership can point to a steady spate of State and local tax increases during recent years which has presumably made further tax increases harder to obtain. State and local taxes represented 6.4 percent of the Gross National Product in 1956 whereas by 1971 they had risen to 9.8 percent of GNP. Because of hardening public attitudes toward further State and local tax increases, a Federal incentive grant might be a way to induce State revenue action to reduce intrastate disparities.

State Takeover of School Funding

One school finance scheme that has been proposed to meet the requirements of the courts is a

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system in which the States would assume about 90 percent of the costs of public schools. Uniformity in school spending would be the rule, modified, however, by special needs or costs in some jurisdictions and by any limited local add-on spending permitted.

As with any other proposal, expenditure under a State takeover plan could be set at any level desired. The current level of total school spending could be maintained, or total spending could be increased so that spending reduction in high-spending districts would not be necessary. The capacity for raising these additional revenues was considered in the preceding section.

There is an additional revenue difficulty involved in the State taking over the funding of schools. In addition to any new money requirements, full State takeover requires the replacement of local school taxes with State taxes. The total State-local tax burden for the States as a whole would not be increased by this replacement, but the burden on an individual taxpayer might be increased or decreased. Furthermore, considerations such as interstate tax competition may make the replacement of local with State taxes not quite as simple as it sounds.

Statewide property tax. State takeover of school funding would bring least change from the *status quo* if it were financed by means of a statewide property tax. The local property tax for schools would be replaced by a statewide tax. Shifts in tax burdens among property owners in different locations would result from the uniformity of the rate of the statewide tax, but the total burden would remain with property owners as a group. Some of the implications of statewide property taxes are discussed in Chapter VI. *(See page 74 ff.)*

Without a statewide property tax. Major shifts in tax burdens would be involved if the State takeover of school finance were to be funded with non-property taxes—the income and sales taxes. Some of the economic and political problems are discussed in Chapter VII. *(See page 83 ff.)*

Minimizing the Need for Incurring Additional "Leveling-Up" Costs

Because of the lengthy treatment accorded "leveling-up" costs and their relationship to untapped State-local fiscal capacity, it is appropriate to reiterate that State policymakers have several options for minimizing the need for additional revenue when responding to *Serrano*-type litigation.

- States could restructure local school districts to make them more nearly the fiscal image of one another and thereby fiscal equals.
- States could, if they so chose, pull out for special property tax treatment those types of property—industrial plants and shopping centers—that contribute most to local wealth disparities. State property tax revenue from these facilities could then be redistributed to school districts in an equalizing manner.
- States could strive to make more efficient use of the dollars already earmarked for school support.
- States could "level down" by cutting back spending levels in high spending districts, rather than bringing all lower spending districts up to these levels.

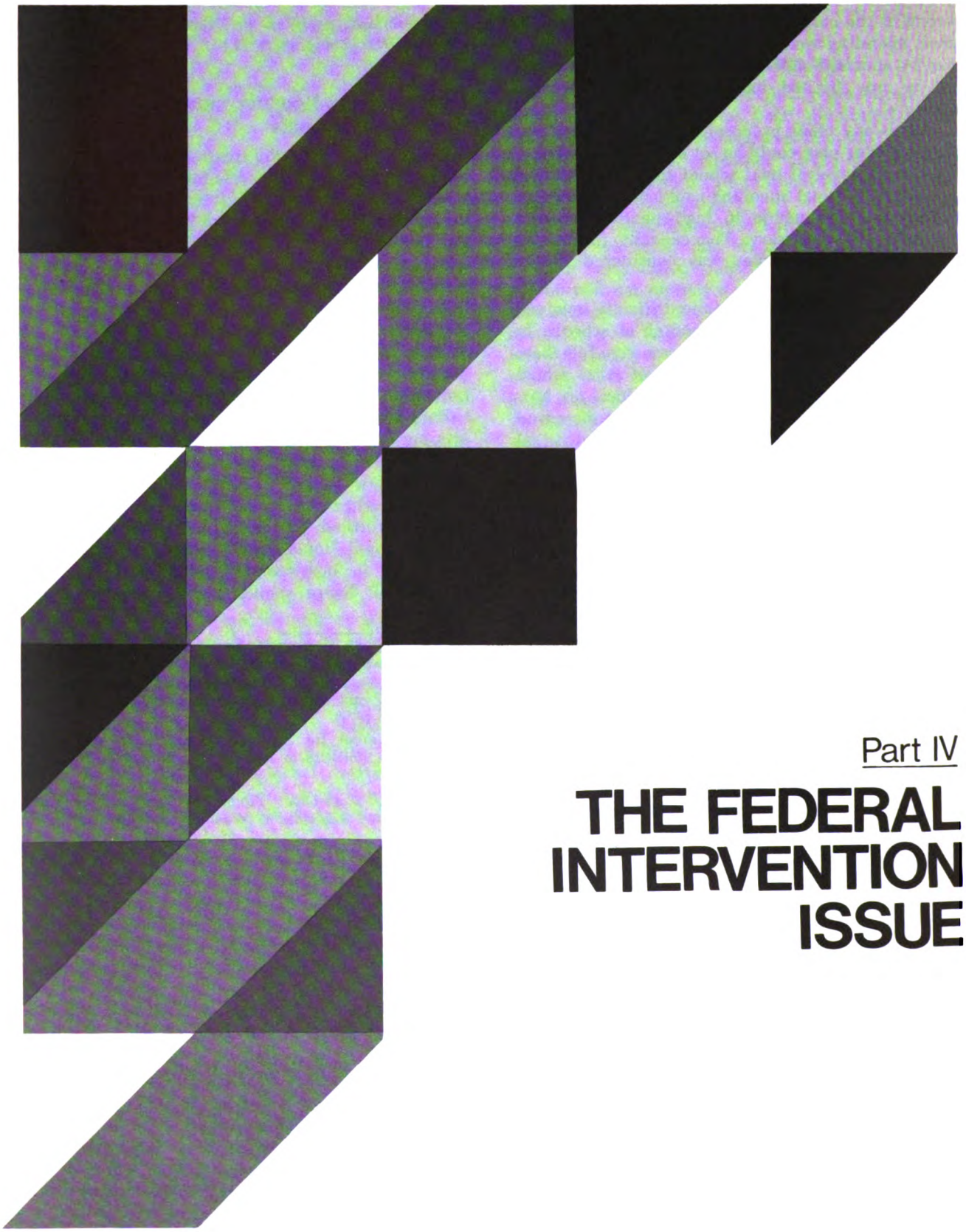
FOOTNOTES

[1]ACIR, *Measures of State and Local Fiscal Capacity and Tax Effort* (Washington: GPO, 1962) and *Measuring the Fiscal Capacity and Effort of State and Local Areas* (Washington: GPO, 1971).

[2]National Center for Education Statistics, *Projections of Educational Statistics to 1979-80* (Washington: GPO, 1971), Table 4, p. 21.

[3]See ACIR, *State-Local Finances: Significant Features and Suggested Legislation* (Washington: GPO, 1972), pp. 43-49.

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Part IV

THE FEDERAL INTERVENTION ISSUE

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chapter XI

the case for and against federal aid

Is the cause of federalism well served when the National government moves into policy areas traditionally reserved for the States and attempts to reduce both the burdens of the local property tax and the fiscal disparities among local school districts within each State? This was the central intergovernmental question raised by the proposal that called upon the National government to launch a major new initiative designed both to reduce residential property taxes substantially and to encourage the States to assume primary responsibility for the financing of public schools.

That problems exist with both property tax and school equalization cannot be denied—but the scope and character of the problem is open for debate. The central issue, therefore, is not the *existence* of a problem but, rather, the clarification and isolation of the specific problem and the determination of the appropriate governmental level for effecting a solution..

Two Views of the National Government's Role

The Activist View and the "Timely Contribution" Test

Those inclined toward an "activist" view believe that National government involvement is called for if the proposal can pass the timely contribution test—will the proposed action make an effective and prompt contribution to the solution of a serious and persistent domestic problem?

In support of this test, the activist argues that extensive Federal aid experience has now clearly established the precedent of National interest throughout the domestic public sector. If Federal grant dollars can be used to help disadvantaged students, why not use Federal grant dollars to help disadvantaged local school districts?

The activist will also argue that if it makes sense to use Federal revenue sharing dollars to strengthen the fiscal position of State and local governments within the federal system, it makes even more sense for Congress to use Federal categorical aid dollars in a way that would encourage the States to place their own revenue houses in order. Thus, the activist will contend that a categorical aid program that encourages the States to help themselves—in this case the promotion of property tax relief and reform—must be regarded as strengthening, not weakening our system of shared power.

The activist will also point out that it is often necessary to hurry history along if the National government and the States are to be responsive to the needs of the people—justice delayed all too frequently means justice denied..

The activist will claim that Federal involvement in

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areas of traditional State concern need not result in a "boiler plate" solution to the problem. Federal aid programs can be designed with sufficient flexibility to accommodate the National interest in developing minimum standards while still permitting States great latitude in formulating their own programs.

The Traditional View and the "Irreconcilable Conflict" Test

When confronted with the proposal that calls on the National government to help solve a problem previously regarded as the exclusive responsibility of the States, a traditional federalist will urge Congress to pursue a policy of great restraint. He views the variations in the way each State responds to a problem as proof of the great diversity of needs and expectations to be found in this country; he is reluctant to use Federal fiscal power in a way that would force all States to reorder their priorities and toe the Federal mark.

In those cases where the need for corrective government action is clear, the traditional federalist recommends individual State action as the most effective way to tailor solution of the problem to the differing needs of each State.

Thus, the traditional federalist is not satisfied with the vague contention that new Federal aid programs will "promote the general welfare." Rather he subjects the proposal to a test that is rigorous enough to screen out all but the most persuasive plans for new Federal initiatives in areas of traditional State-local concern.

The "irreconcilable conflict" test set forth below possesses this rigor because it requires a proposal for a new Federal aid initiative to meet two tough conditions before a strong National interest can be established.

- The problem that precipitated the demand for Federal intervention stems from a head-on conflict—a serious undercutting of a major Federal program objective by policies of most States.
- The intergovernmental conflict can be resolved only by Federal government action.

The traditional federalist also contends that congressional restraint with respect to the creation of new categorical aid programs stands out as the necessary corollary to general revenue sharing and the consolidation of existing categorical aid programs into broader block grants. These three actions when taken in concert can check the trend toward centralization of power in Washington.

The traditional federalist also has a more relaxed attitude when it comes to the pace of reform. He generally opposes attempts to "hurry history along" by means of Federal carrots and sticks. He is more comfortable when promoting remedial State action than in devising another Federal aid scheme calculated to trigger quick and concerted State action in still another problem area.

General Residential Property Tax Relief Proposal

The Commission was asked among other things to evaluate a proposal that had two major objectives:

- To cut the average residential property tax approximately 50 per cent by removing that part of the property tax that underwrites local school operation.
- To eliminate fiscal disparities among school districts in each State by encouraging the States to assume most of the cost of financing public elementary and secondary schools.

In order to accomplish these two objectives, the plan called for a Federal value-added tax designed to yield $18 billion the first year. Part of this revenue yield—approximately $5 to $6 billion—would be set aside to underwrite a system of personal income tax credits and rebates thereby removing the regressivity of the value-added tax for most taxpayers.

The remaining $12 to $13 billion was to be distributed by the Federal government to the States for the support of public elementary and secondary education, *provided* the States agreed to remove the local school tax on residential and nonresidential property and also agreed to refrain from levying a State tax on residential property for the support of local schools.

Pro Arguments

There are two arguments in favor of this property tax relief-school finance reform proposal. First, it is contended that our Nation's tax system would be significantly improved by shifting most of the responsibility of financing schools from the local property tax to State and Federal revenue sources. The local property tax is the most unpopular of all major revenue instruments and bears down harshly on low-income households in general and on the elderly in particular. Moreover, the property tax has always had a very bad reputation due to the inherent subjectivity of the valuation process and the great inequities in assessment administration.

Second, this Federal aid proposal would encourage the States to assume primary responsibility for financing schools thereby placing all local school districts within each State on an essentially equal fiscal footing. It would put an end to the inequitable situation prevailing in most States, where the amount of resources placed behind each child is largely determined by the accidents of local property tax

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geography. In this connection it should be noted that in its 1969 report, *State Aid to local Governments*, the Advisory Commission on Intergovernmental Relations urged the States to take on most of the responsibility for the financing of local schools.

Con Arguments

While the property tax creates excessive burdens for low-income households, our investigation failed to reveal a strong National interest in a program designed to provide across-the-board tax reduction for every homeowner in the United States. Specifically, there is no evidence to suggest that a massive residential property tax relief program is necessary to protect the vital Federal interest nor can it be demonstrated that the relatively high property taxes in New Jersey and New Hampshire cause serious economic harm beyond their own boundaries.

This massive program would create more problems than it would solve:

- It would be extremely difficult to develop a Federal program capable of distributing residential property tax relief equitably across the Nation because the tremendous variations in the use of the property tax would create unequal windfalls both between jurisdictions and among classes of property owners within the same jurisdiction.
- In order to protect the reductions in residential property taxes, Congress would be under considerable pressure to exercise unprecedented control over both State and local tax policymakers.
- This plan for residential property tax relief would create serious constitutional problems for many States because their uniformity provisions prohibit preferential treatment for residential property.

A multi-billion dollar Federal program of tax relief-school finance reform cannot be justified on the grounds that States lack the fiscal capacity necessary to place their local school districts on an equal fiscal footing. Our analysis reveals that only a few States would experience fiscal difficulty in bringing per-pupil expenditures to the relatively high levels needed to comply with the principle enunciated in *Serrano v. Priest*, the California Supreme Court decision that first demanded equalization of school district fiscal resources. The great majority of States have the necessary untapped relative tax potential.

Limited Property Tax Relief

A limited program of Federal property tax relief is subject to varying interpretations. Narrowly conceived, the program would restrict benefits to those low-income elderly homeowners deemed to be carrying extraordinary property tax burdens in relation to total household income. For example, if federally financed property tax relief had been extended to those elderly homeowners who turned over more than 5 per cent of their total money income to the residential property tax collectors in 1972, approximately 4.5 million elderly homeowners would have received approximately $1 billion in property tax rebates.

At the other extreme, a limited property tax relief program could conceivably be designed to come to the aid of *all* households with property tax burdens in excess of 5 percent of family income. Using this liberal version of "limited relief," approximately 27 million households and unrelated individuals would have received close to $5.5 billion in property tax rebates in 1972. In this case Federal aid would go to the nonelderly as well as the elderly, to renters as well as homeowners and to many families in the middle-income range as well as to most families in the low-income class.

The Case for Federal Involvement

While the advocates of Federal intervention will concede that the States have made some progress on the property tax relief front in the last few years, they contend that these efforts must be judged too little and too late. There are still great gaps in State programs for shielding low-income households from property tax relief overloads. Just a handful of States come to the aid of low-income elderly renters and only two States presently help nonelderly households. Many States either mandate property tax relief (15 States) or authorize local governments to provide such relief (six States), but, whether mandated or authorized, local governments are forced to underwrite the programs. There are also great variations in the coverage of the 26 State-financed programs for the elderly; some are fairly generous while others provide thin protection.

Thus, proponents of Federal action argue that local property tax policies still seriously undercut the income maintenance objectives of the National government and that remedial congressional action is needed now.

Those favoring Federal involvement also point out that Congress has a broad array of feasible solutions that range from a centralized approach—100 percent federally financed "circuit-breaker" administered by a Federal agency (probably IRS)—to a fairly decentralized plan—National government reimbursement of part of the cost the States incur in coming to the aid of overburdened property taxpayers.

It can also be argued that by helping to remove the

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harshest feature from the property tax—the heavy burden it places on the poor—remedial Federal action makes this tax a more effective and equitable revenue instrument for local government and thereby strengthens our decentralized system of government.

The Case for a Federal Hands-Off Policy

Those favoring a Federal hands-off policy concede that the heavy local property taxes borne by low-income families in general and the elderly in particular certainly undercut the National government objective of income maintenance. Nevertheless, they emphasize that the States have made truly remarkable progress since 1970 in providing property tax relief for the low-income elderly. Twenty-three of the 26 States that now finance this type of aid either adopted or liberalized their program after January 1, 1970.

This truly remarkable upsurge of interest in property tax relief legislation argues for congressional patience and restraint. Most significantly, there is growing State interest in "heavy-duty circuit-breakers" designed to shield *all* low and moderate income families—renters as well as homeowners, the nonelderly as well as the elderly—from property tax overload situations.

It can also be argued that Federal incentive grants should not have to be used to induce States to do something that is morally right, highly popular, and relatively inexpensive. All of the States have sufficient fiscal capacity to underwrite a limited property tax relief program for low-income households.

Perhaps the most persuasive argument for looking to the States to put their own property tax relief houses in order arises from the fact that State fiscal policies are largely responsible for the weight of the local property tax. These jurisdictions, therefore—not the National government—should finance circuit-breaker programs designed to shield low-income homeowners from property tax overload situations. Moreover, if the Federal government becomes involved in property tax relief, it will unduly reward those States that force local governments to make heavy use of the property tax and shortchange those States that make relavitely light use of this revenue instrument.

Finally, those favoring a State solution also contend that the creation of still another narrow categorical aid program designed to encourage States to accelerate their property tax relief efforts runs completely counter to present efforts to overhaul our Federal aid system. The emphasis now is on building greater flexibility into the Federal grant mechanism by means of revenue sharing and the consolidation of narrow categorical aids into broader block grants. Thus the creation of a new categorical aid program with its own bureaucracy and expenditure guidelines would undercut current efforts to decentralize government by allowing States greater latitude in determining their own priorities.

The Intrastate School Equalization Issue

The Federal government has followed a "hands off" policy with respect to the division of fiscal responsibility between a State and its local school districts. This neutrality policy has rested on the belief that hammering out the details of a State-local financial partnership in the school finance area is an "internal" matter that should be resolved by each State.

The growing demand for property tax relief and the spread of *Serrano*-type litigation necessitates a reconsideration of this Federal "hands off" posture. Specifically, the issue for National policymakers is this—should Federal aid be extended to the States in order to encourage them to place their local school districts on a more equal fiscal footing?

The Case For Federal Involvement

The National interest in education. The day when schools, like police, could be neatly labeled "local" has passed. Wherever a problem area is identified, and school finance disparities stand out as a problem area, the true test of federalism is to enlist Federal, State and local levels of government in a cooperative effort to resolve it. Table 42 presents various aspects of school finance, including the distribution among levels of government.

The grant-in-aid mechanism exists to achieve limited objectives in the National interest such as encouraging States to put their school districts on an equal fiscal footing. By focusing Federal aid on this aspect of the problem of equalizing educational opportunity, the National government would be strengthening the hand of the States as effective partners in the federal system.

Further need for a Federal initiative to improve educational opportunity arises out of the increasing interdependence and mobility of our Nation's population. As well-educated children grow up and migrate to other States, they carry with them the benefits that accrue to a community with a well-educated population. Conversely, when poorly educated children move to other regions, their new communities are burdened with the cost of supporting unemployable and unproductive citizens. Thus, the residents of one State have a very real stake in the quality of education provided in every other State.

It will take a long time before most of the States on their own initiative, equalize resources among school districts. A Federal school aid initiative stands

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Table 42

Estimated School Finance Data, 1971-72

Item	Amount (in billions)	Percentage distribution
State and Local Expenditures for Public Schools	$46.8	100.0
Current Expenditures	40.8	87.2
Capital Outlay	4.5	9.6
Interest on School Debt	1.5	3.2
Revenue Receipts for Public Schools[1]	$46.6	100.0
Local Governments	24.3	52.1
State Governments	19.0	40.8
Federal Government	3.3	7.1
Local Property Tax Collections[2]	$42	100.0
School districts[3]	23	54.8
Single-family homes	9	21.4
Multi-family homes	3	7.1
Commercial, industrial, acreage, and farms	11	26.2
Other local governments	19	45.2

[1] National Education Association, *Estimates of School Statistics*, 1971-72, Washington: 1971.
[2] ACIR staff estimates.
[3] Includes amounts allocable to dependent city and county school systems.

out as the best approach (a) to overcome political and fiscal obstacles the States face in upgrading their school finance systems to reduce intrastate disparities in school spending and (b) to assert the National interest in the equitable provision of educational programs to children in all States.

State efforts on the equalization front can be expected to be excruciatingly slow for four reasons. First, State leadership faces the distasteful task of trying to convince an increasingly hostile public of the need for more taxes. Second, the representatives from the wealthier districts must be convinced that the poorer districts should receive the lion's share of the additional State tax revenue. Third, the representatives of the wealthier districts must be asked with increasing frequency to acquiesce in legislation that places a lid on the amount their local constituents can spend on schools. Fourth, rightly or wrongly, there is fear that any basic change in financing will threaten "local control" of education.

These are formidable political obstacles to State action which Federal policymakers should weigh as they judge whether States need financial assistance for intrastate equalization purposes. Because the issue bristles with political difficulties, no set of financial calculations can convey the costs—political as well as fiscal—involved in placing all local school districts on essentially equal footing.

Federal financial assistance could serve the dual purposes of rewarding political courage and overcoming the opposition to fiscal equalization by representatives of the wealthier districts.

Equipped with a self-destruct mechanism, a limited Federal aid intrastate school equalization program would strengthen, not weaken, our federal system. The key feature of such an approach would call for the automatic phasing-out of Federal school equalization grants as the National government assumes a progressively larger share of public assistance costs.

In order to minimize the time period for accomplishing school finance equalization and help the States surmount the obvious political obstacles, Congress could fashion a limited assistance program. The assistance might take the form of a general purpose grant in the range of $20 to $40 per school age child that could be used for any purpose so long as a State met equalization objectives specified by the Federal aid legislation. These features assure that a State like Hawaii, which has eliminated interlocal fiscal disparities by opting for a statewide school system, would not be deprived of the benefit of the aid program.

Each State would be free to work out its own solution to the disparities problem—increased State equalization payments, full State financing, power equalizing or any other approach—so long as the result fell within the acceptable range of the equali-

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zation standards. For example, a State might be eligible for the Federal grant if its school finance system resulted in a program in which no more than 5 percent of the pupils reside in districts in which per-pupil expenditure is less than 90 percent of the pupils reside in districts in which per-pupil outlay exceeds 120 percent of the statewide average.

The Case Against Federal Involvement

State responsibility for intrastate equalization. The States have plenary powers in the education field and they also have an overriding self-interest in adequate provision of this single most costly State-local function. Moreover, the issue here—the intrastate equalization of school financing—is clearly the States' responsibility. This stands in sharp contrast to the issue of *interstate* equalization—which of necessity would involve the National government.

States have at least four options in responding to any court decision invalidating a school finance system that relies too heavily on the local school property tax. They can reorganize their school districts to make each local district reflect the situation in the State as a whole. They can mandate a uniform school property tax rate the proceeds of which could be used to equalize financial capacity among districts. They could enact State property or non-property taxes the proceeds of which could be used to equalize local fiscal capacity. They could finance schools from non-property tax sources as does Hawaii. The States alone have the capacity to take any or all of these options should the need arise as a result of court action. Thus, Federal intervention is not a prerequisite to State solution of the intrastate school finance disparities issue.

States are making good progress on the equalization front, and the added spur of school finance litigation should intensify State efforts of this kind.

Without any direct Federal intervention, States have made progress in reducing disparities in school spending. The trend to improved State-local finance programs is firmly established, and there is no reason to believe it will be turned around. A recent report by the National Committee for the Support of the Public Schools on the long-run progress of the States in reducing the range of expenditures shows a narrowing gap in spending on children in the high spending districts.[1]

The reduction in the number of local school systems accounts for much of the State progress in reducing disparities in local school spending. Both the opportunity to improve educational programs by school consolidation and the urge to get the most out of the educational dollar have led States to exert control over school district boundaries. State action on boundaries promotes efficiency yet permits flexibility to reflect vital local interests in school district organization.

Even though the Supreme Court has overturned the *Rodriguez* decision, *Serrano*-type litigation has so dramatized the existence of intrastate school finance disparities that State political leaders will hereafter be under constant pressure to improve the States' distribution of school funds.

The Federal government should be wary of pushing more dollars into present educational programs. School finance reformers hope to achieve their goal—raising the achievement level of disadvantaged youngsters—by reducing intrastate disparities. But the Coleman report and subsequent studies have shown that unequal schools are only one of the factors resulting in unequal educational opportunity.[2] A child's family background and his peer group will have an even greater effect on his educational achievement.

Increased total spending for public education assuredly will not close the achievement gap if spread over a large number of students. Rather than equalizing per-pupil spending at a level above the mean, any additional State or Federal funds might better be spent for compensatory programs aimed at the disadvantaged or for programs related to other factors affecting a child's educational performance—family instability, poor nutrition, bad health.

In view of the States' responsibility for intrastate equalization and the heightening interest of States in improving the equalization features of their school aid systems, National policymakers should maintain a hands off policy.

Property Tax Assessment Reform

There is no area in the American public finance field that is more difficult to reform or in greater need of reform than the local property tax. It is understandable, therefore, that reformers, frustrated by State and local inertia in the property tax field, are prompted to recommend Federal incentives to encourage States to improve the administration of this tax. The Federal incentives could take the form of a "carrot,"grants and loans to States that carry out congressionally prescribed practices, or a "stick", withholding Federal aid from States for failure to carry out certain practices, or some combination of Federal carrots and sticks. To strengthen the States' role in property tax administration, the reforms most often cited as worthy of Federal encouragement are: full State disclosure of local assessment ratio data; easy taxpayer access to appeal procedures; assessing tax exempt property and publicizing such information; the use of tax maps; and State training and certification of local assessors.

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The Case for Federal Incentives

Proponents of Federal incentive grants for encouraging State assessment administration reform point to the slow pace of State efforts in this area. They recognize the major political obstacles that impede reform progress and suggest that even a small Federal incentive might hurry history along. They emphasize that it is precisely in areas where reform is especially difficult to achieve that Federal aid can make its greatest contribution.

They also contend that Federal action designed to make the property tax a more effective revenue instrument for local government strengthens rather than weakens our system of shared powers. In fact, they argue, this type of categorical aid which encourages State and local governments to help themselves on the revenue front is more in keeping with the true spirit of federalism than "no strings" revenue sharing. Moreover, if there is a National interest in providing revenue sharing dollars to States and their localities, there is certainly a National interest in helping the States put their own revenue houses in order.

The Case Against Federal Incentives

Those favoring a Federal hands off policy argue that there is no evidence to support the contention that some vital National interest is seriously undercut by poor property tax assessment administration. It is therefore a State—not a Federal—responsibility.

It should also be noted that the adoption of a Federal incentive would add still another narrow purpose categorical aid program with its own set of Federal guidelines and controls. Before such action is taken, the Federal government would be well-advised to coordinate and strengthen a number of existing Federal governmental activities for helping States and localities improve assessment administration.

Some critics of Federal incentives also point out that only a very large Federal carrot or a very formidable Federal stick or both could quickly effect major property tax reform. In support of this contention they emphasize the fact that property tax reform fairly bristles with controversial political ramifications and that it would be naive, therefore, to assume that a relatively small Federal grant could do the job. Moreover, financial administration is one of the priority items for which general revenue sharing funds may be spent. State and local governments can therefore spend any portion of the Federal revenue sharing funds to strengthen assessment administration.

Conclusion

After weighing the pros and cons a majority of the Commission resolved these four issues by supporting the traditional position—that school finance reform and property tax relief and reform should remain the responsibility of the States.

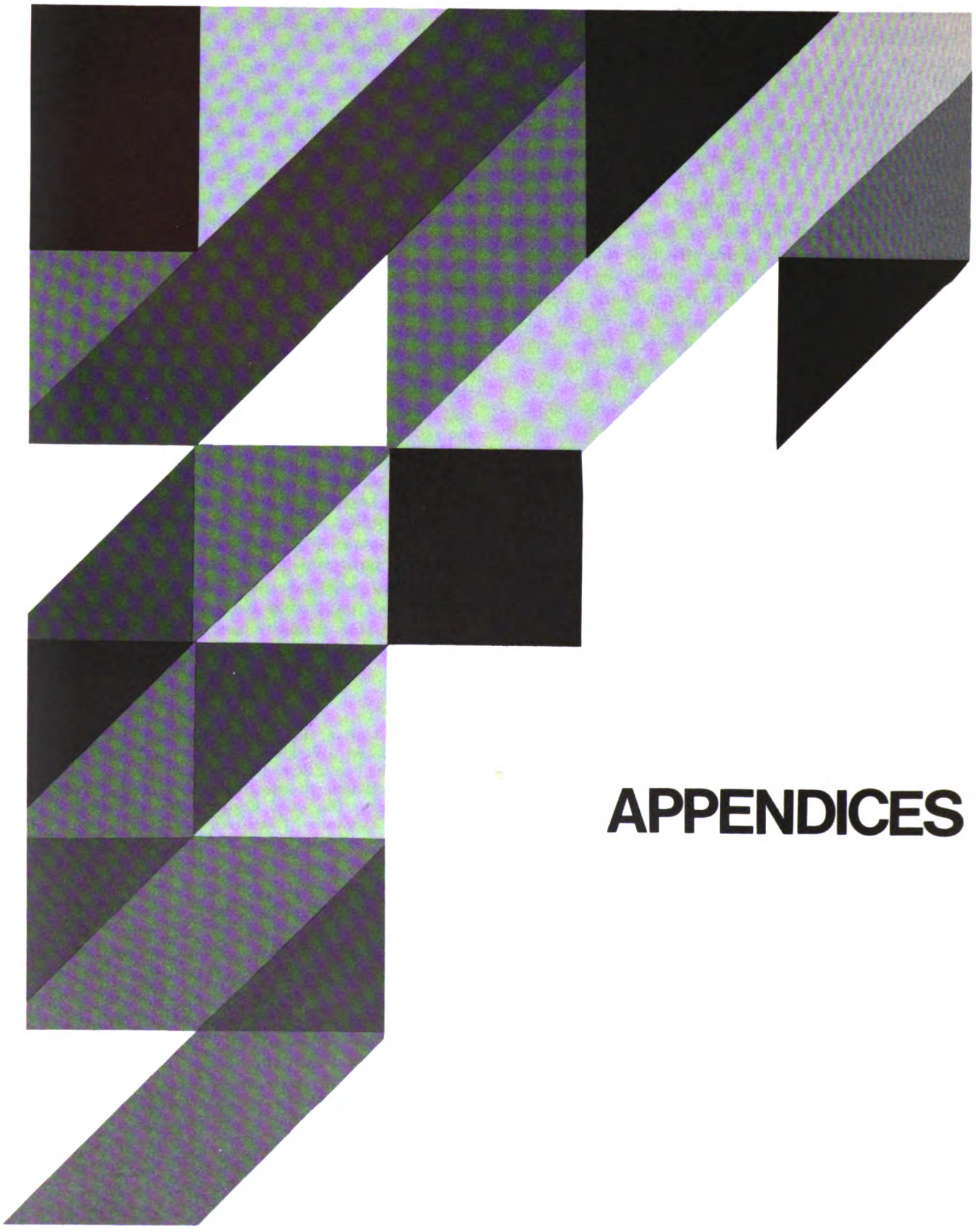
They argue that if our federal system is to maintain its integrity, the States should continue to exercise sole responsiblity in these important areas of domestic policy. For this reason, the Commission majority favored State-initiated reform even though it comes more slowly than Federally-induced reform. They selected the State approach on the grounds that there must be no blurring of State responsibility for property tax and school equalization policies.

FOOTNOTES

[1]Bendixsen, Marian, *In Search of Equality: School Finance Revisited* (Washington: National Committee for Support of the Public Schools, 1972), p. 41.

[2]Harvey A. Averch, et. al. *How Effective is Schooling?* (Santa Monica; The Rand Corporation, 1971). A critical review and synthesis of research findings for the President's Commission on School Finance.

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APPENDICES

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Appendix A

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TABLEA-1—AVERAGE EFFECTIVE PROPERTY TAX RATES, EXISTING SINGLE-FAMILY HOMES WITH FHA INSURED MORTGAGES, BY STATE AND REGION, SELECTED YEARS 1958-1971[1]

State and Region	1971	1966	1962	1958
United States	1.98	1.70	1.53	1.34
New England				
Maine	2.43	2.17	1.81	1.58
New Hampshire	3.14	2.38	2.03	1.81
Vermont	2.53	2.27	2.10	1.63
Massachusetts	3.13	2.76	2.47	2.21
Rhode Island	2.21	1.96	1.93	1.67
Connecticut	2.38	2.01	1.75	1.44
Mideast				
New York	2.72	2.40	2.23	2.09
New Jersey	3.01	2.57	2.22	1.77
Pennsylvania	2.16	1.88	1.75	1.50
Delaware	1.26	1.14	.91	.71
Maryland	2.24	2.05	1.74	1.47
Dist. of Columbia	1.80	1.37	1.18	1.08
Great Lakes				
Michigan	2.02	1.81	1.76	1.45
Ohio	1.47	1.44	1.24	1.07
Indiana	1.96	1.64	.96	.84
Illinois	2.15	1.96	1.79	1.35
Wisconsin	3.01	2.31	2.24	1.82
Plains				
Minnesota	2.05	2.14	1.79	1.57
Iowa	2.63	2.12	1.66	1.34
Missouri	1.79	1.64	1.36	1.12
North Dakota	2.08	1.81	1.70	1.54
South Dakota	2.71	2.64	2.31	2.01
Nebraska	3.15	2.67	1.84	1.90
Kansas	2.17	1.96	1.92	1.65
Southeast				
Virginia	1.32	1.13	1.03	.90
West Virginia	.69	.71	.79	.56
Kentucky	1.27	1.03	.94	.93
Tennessee	1.53	1.37	1.18	.97
North Carolina	1.58	1.31	1.17	.90
South Carolina	.94	.60	.53	.48
Georgia	1.44	1.30	.94	.84
Florida	1.41	1.09	.66	.76
Alabama	.85	.66	.52	.56
Mississippi	.96	.93	.76	.66
Louisiana	.56	.43	.49	.52
Arkansas	1.14	1.09	1.09	.84
Southwest				
Oklahoma	1.35	1.11	.86	.86
Texas	1.91	1.62	1.44	1.36
New Mexico	1.70	1.30	.98	.93
Arizona	1.65	2.41	2.27	2.14
Rocky Mountain				
Montana	2.19	1.70	1.58	1.32
Idaho	1.72	1.23	1.13	1.14
Wyoming	1.38	1.34	1.27	1.17
Colorado	2.45	2.20	1.85	1.72
Utah	1.49	1.52	1.31	1.05
Far West				
Washington	1.62	1.14	1.12	.92
Oregon	2.33	1.98	1.83	1.55
Nevada	1.48	1.47	1.31	1.06
California	2.48	2.03	1.71	1.50
Alaska	1.61	1.42	1.24	1.12
Hawaii	.92	.81	.77	.62

—continued next column—

[1] Effective tax rate is the percentage that tax liability is of the market or true value of the house.

Source: Computed by ACIR staff from data contained in U.S. Department of Housing and Urban Development, Federal Housing Administration, Statistics Section, *Data for States and Selected Areas on Characteristics of FHA Operations Under Section 203*; 1971 data from unpublished FHA tabulations.

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TABLE A-2–AVERAGE EFFECTIVE PROPERTY TAX RATES, EXISTING SINGLE-FAMILY I.OMES WITH FHA INSURED MORTGAGES, 50 LARGEST SMSA'S, BY REGION, SELECTED YEARS, 1958-1971[1]

Standard metropolitan statistical area & region	1971	1966	1962	1958
Median of 50 SMSA's	2.13	1.95	1.71	1.42
New England				
Boston	3.21	2.70	2.46	2.24
Hartford	2.88	2.22	1.96	1.55
Providence	2.34	2.04	2.01	1.72
Mideast				
Albany	2.45	2.44	2.55	2.13
Baltimore	2.25	2.37	1.96	1.59
Buffalo	2.24	2.70	2.31	1.82
New York	2.68	2.49	2.26	2.10*
Newark	2.93	2.63	2.21	**
Paterson	2.53	2.30	2.02	**
Philadelphia	3.08	2.47	2.20	1.70
Pittsburgh	2.46	1.83	1.57	1.42
Rochester	2.72	2.13	1.95	1.66
Washington, D.C.	1.93	1.63	1.34	1.24
Great Lakes				
Akron	1.62	1.58	1.32	1.20
Chicago	2.16	2.02	1.95	1.39
Cincinnati	1.52	1.60	1.35	1.11
Cleveland	1.88	1.62	1.39	1.23
Columbus	1.53	1.33	1.11	0.86
Dayton	1.38	1.51	1.32	1.09
Detroit	2.03	1.86	1.87	1.56
Indianapolis	2.29	2.10	1.06	0.84
Milwaukee	3.52	2.71	2.62	1.93
Toledo	1.30	1.37	1.19	0.95
Plains				
Kansas City	1.76	1.58	1.35	1.16
Minneapolis	2.08	2.16	1.82	1.67
Plains–continued				
St. Louis	2.09	1.82	1.51	1.14
Southeast				
Atlanta	1.52	1.50	1.04	0.97
Birmingham	0.98	0.84	0.68	0.66
Louisville	1.29	1.09	1.03	1.01
Memphis	1.98	1.80	1.61	1.05
Miami	1.40	1.25	0.62	0.73
New Orleans	0.48	0.38	0.55	0.53
Norfolk	1.13	0.95	0.99	0.96
Tampa	1.50	1.04	0.82	0.98
Southwest				
Dallas	1.83	1.43	1.26	1.27
Ft. Worth	2.21	1.97	1.73	1.70
Houston	1.85	1.67	1.36	1.24
Oklahoma City	1.31	1.11	0.82	0.85
Phoenix	1.62	2.58	2.36	2.18
San Antonio	2.21	1.84	1.86	1.65
Rocky Mountain				
Denver	2.45	2.17	1.86	1.69
Far West				
Anaheim	2.19	1.94	NA	NA
Los Angeles	2.85	2.17	1.71	1.44
Portland, Oregon	2.28	2.01	1.77	1.58
Sacramento	2.44	2.19	1.84	1.65
San Bernardino	2.34	2.00	1.75	1.58
San Diego	1.98	1.98	1.74	1.68
San Francisco	2.76	1.96	1.64	1.53
San Jose	2.61	2.12	1.85	1.62
Seattle	1.82	1.17	1.14	0.91

–continued next column–

NA – Data not available

* New York–Northeastern New Jersey

** Included in New York–Northeastern New Jersey

[1] Effective tax rate is the percentage that tax liability is of market or true value of the house.

Source: Computed by ACIR staff from U.S. Department of Housing and Urban Development, Federal Housing Administration, Statistics Section, *Data for States and Selected Areas on Characteristics of FHA Operations Under Section 203*; 1971 data from unpublished FHA tabulations.

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Table A-3

Apartment Building Real Estate Taxes In Selected Metropolitan Areas For Walk-Up Buildings, 25 Units and Over, Unfurnished
Selected Years, 1962-1970

	1962		1964		1966		1968		1970	
Metropolitan Area	**(a)**	**(b)**	**(a)**	**(b)**	**(a)**	**(b)**	**(a)**	**(b)**	**(a)**	**(b)**
Ann Arbor	54	16	—	—	58	15	65	15	76	16
Atlanta	—	—	—	—	22	10	28	11	46	14
Boston	77	23	80	22	84	22	108	25	120	25
Chicago	60	17	61	17	64	18	74	20	96	21
Cleveland	—	—	52	14	54	15	—	—	87	14
Denver	—	—	—	—	74	16	45	13	39	11
Detroit	—	—	—	—	—	—	27	10	85	16
Honolulu	—	—	—	—	42	10	40	8	47	8
Houston	—	—	—	—	—	—	31	8	26	7
Indianapolis	—	—	—	—	49	15	45	12	60	15
Kansas City	—	—	—	—	—	—	—	—	46	11
Los Angeles	—	—	—	—	—	—	63	14	70	14
Louisville	—	—	—	—	—	—	—	—	18	6
Miami	—	—	—	—	—	—	—	—	55	11
Milwaukee	—	—	—	—	47	20	77	26	101	28
Minneapolis	—	—	—	—	72	23	74	20	225	25
Newark	—	—	—	—	—	—	88	23	63	15
Omaha	—	—	—	—	—	—	51	13	62	14
Paterson	—	—	—	—	70	13	86	14	86	12
Pittsburgh	56	16	—	—	71	18	80	18	121	19
Portland, Oregon	—	—	—	—	—	—	—	—	52	12
St. Louis	—	—	—	—	45	13	49	15	50	13
San Diego	—	—	—	—	—	—	—	—	52	10
San Francisco	—	—	—	—	—	—	69	16	85	17
Seattle	—	—	—	—	—	—	—	—	64	14
Toledo	—	—	—	—	—	—	—	—	46	10
Washington, D.C.	—	—	36	10	36	10	53	13	69	13

(a) Dollars per room per annum
(b) Percent of gross possible income
—Data not available
Source: Institute of Real Estate Management, *Apartment Building Income-Expense Analysis* (Chicago: annual).

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Table A-4

Apartment Building Real Estate Taxes in Selected Metropolitan Areas for Elevator Buildings, Unfurnished selected Years 1962-1970

	1962		1964		1966		1968		1970	
Metropolitan Area	**(a)**	**(b)**	**(a)**	**(b)**	**(a)**	**(b)**	**(a)**	**(b)**	**(a)**	**(b)**
Baltimore	56	11	—	—	87	17	83	17	110	16
Boston	110	23	109	20	98	17	125	23	167	23
Chicago	130	20	139	21	121	18	109	17	120	16
Cleveland	—	—	—	—	87	15	39	8	58	11
Dallas-Ft. Worth	—	—	—	—	—	—	—	—	75	13
Denver	58	15	—	—	83	14	85	14	84	14
Detroit	—	—	—	—	—	—	—	—	160	16
Kansas City	—	—	—	—	61	9	48	9	50	10
Los Angeles	—	—	—	—	—	—	96	15	222	18
Milwaukee	110	20	—	—	90	22	154	25	166	25
Newark	—	—	—	—	148	28	183	30	162	25
New York	88	19	—	—	—	—	93	20	123	16
Philadelphia	—	—	—	—	—	—	96	14	92	13
Pittsburgh	68	12	92	15	98	15	107	19	157	22
Portland, Oregon	—	—	—	—	—	—	55	16	29	8
St. Louis	—	—	—	—	63	13	76	13	68	11
San Francisco	—	—	—	—	133	20	109	17	136	20
Seattle	—	—	—	—	—	—	—	—	61	10
Washington, D.C.	49	10	53	10	59	11	67	11	75	11

(a) Dollars per room per annum
(b) Percent of gross possible income
—Data not available
Source: Institute of Real Estate Management, *Apartment Building Income-Expense Analysis* (Chicago: annual).

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Table A-5

Apartment Building Real Estate Taxes in Selected Metropolitan Areas
Garden-Type Buildings, Unfurnished, Selected Years, 1962-1970

	1962		1964		1966		1968		1970	
Metropolitan Area	**(a)**	**(b)**	**(a)**	**(b)**	**(a)**	**(b)**	**(a)**	**(b)**	**(a)**	**(b)**
Atlanta	—	—	—	—	—	—	34	9	51	14
Baltimore	—	—	38	13	43	14	47	14	53	15
Boston	116	26	—	—	84	24	159	30	129	24
Buffalo	—	—	—	—	—	—	58	14	96	20
Chicago	—	—	—	—	85	20	78	20	93	23
Cleveland	—	—	—	—	51	15	55	14	62	13
Dallas-Ft. Worth	—	—	—	—	—	—	44	10	26	10
Denver	—	—	—	—	—	—	42	13	39	11
Durham	—	—	—	—	—	—	37	12	37	10
Houston	—	—	—	—	—	—	44	9	39	8
Indianapolis	—	—	—	—	—	—	49	11	59	13
Kansas City	—	—	—	—	47	15	40	12	54	12
Los Angeles	—	—	—	—	42	16	54	14	63	17
Louisville	—	—	—	—	—	—	22	6	22	7
Memphis	—	—	—	—	27	14	32	14	36	13
Milwaukee	—	—	—	—	73	21	90	21	117	24
Minneapolis	—	—	78	22	74	20	83	21	114	22
Newark	—	—	—	—	75	18	82	20	102	20
Norfolk	—	—	—	—	39	9	25	8	29	9
Omaha	—	—	—	—	48	14	45	15	77	17
Philadelphia	—	—	—	—	51	16	56	15	64	14
Phoenix	—	—	—	—	—	—	48	14	73	14
Pittsburgh	—	—	—	—	61	18	71	18	78	16
Portland, Oregon	—	—	—	—	62	16	46	13	61	17
Providence	—	—	—	—	—	—	58	12	74	14
Richmond	—	—	—	—	30	12	24	8	28	8
San Antonio	—	—	—	—	—	—	67	14	60	13
San Francisco	—	—	—	—	69	13	72	15	84	18
Washington, D.C.	32	10	41	10	34	11	41	11	46	11

(a) Dollars per room per annum
(b) Percent of gross possible income
—Data not available
Source: Institute of Real Estate Management; *Apartment Building Income-Expense Analysis* (Chicago: annual).

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Table A-6

Office Building Property Taxes for Regions and Selected Cities, 1970

Region and City	Cents Per Square Foot	Percent of Total Income
United States	**88.9**	**18**
Middle Atlantic	96.0	18
North Central	103.1	19
Midwest Northern	91.8	20
Pacific Northwest	47.9	13
Pacific Southwest	102.6	20
Southern	51.8	14
Southwest	64.7	14
Akron	32.3	8
Atlanta	57.6	17
Baltimore	70.2	16
Birmingham	15.8	6
Boston	146.8	27
Chicago	135.5	22
Cincinnati	31.6	8
Cleveland	49.8	13
Dallas	85.1	16
Denver	54.1	13
Des Moines	87.7	27
Detroit	60.6	12
Duluth	74.9	21
Houston	67.5	13
Indianapolis	63.5	14
Kansas City	49.6	12
Los Angeles	68.7	16
Louisville	31.3	8
Miami	54.4	12
Milwaukee	108.0	21
Minneapolis	123.0	23
New York	159.4	25
Oklahoma City	34.2	8
Omaha	58.4	13
Peoria	66.9	18
Philadelphia	59.3	12
Phoenix	53.9	12
Pittsburgh	99.9	17
Portland	57.8	14
San Francisco	121.7	21
Seattle	44.8	12
Spokane	43.1	12
Washington	44.2	11
Wilmington	49.3	7

Source: Building Owners and Managers Association International, *Experience Exchange Report, Office Building Operations, Calendar Year 1970* (Chicago: 1971).

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Table A-7

Real Estate Taxes as a Percentage of Value of Property
1-4 Unit Residential Rental Properties, By Value Class and By Region, 1970

Value of Property	United States Total	North-east Region	North-central Region	South Region	West Region
Less than $5,000	2.7	4.7	3.3	2.2	2.3
$ 5,000- 7,499	2.3	3.7	2.7	1.8	2.2
7,500- 9,999	2.2	3.2	2.5	1.6	2.3
10,000-12,499	2.1	3.3	2.2	1.4	2.3
12,500-14,999	2.1	2.9	2.2	1.7	2.3
15,000-17,499	2.2	3.4	2.3	1.5	2.2
17,500-19,999	2.2	3.2	2.2	1.6	2.2
20,000-24,999	2.2	3.3	2.3	1.2	2.2
25,000-29,999	2.2	2.7	2.1	1.6	2.3
30,000-39,999	2.2	2.9	2.4	1.5	2.2
40,000-49,999	2.1	2.5[1]	2.4[1]	1.5[1]	2.1
50,000-74,999	1.9	2.6[1]	1.9[1]	1.2[1]	1.9
75,000-99,999	1.9[1]	2.4[1]	2.2[1]	0.8[1]	2.0[1]
100,000 or more	1.2[1]	2.1[1]	1.2[1]	0.5[1]	1.1[1]
All values	**2.2**	**3.3**	**2.5**	**1.7**	**2.2**

[1]Based on sample of less than 25 observations.
Source: U.S. Bureau of the Census, *Residential Finance Survey, 1970* (Conducted in 1971), special tabulations prepared for the Advisory Commission on Intergovernmental Relations. Real estate tax data were compiled for properties acquired prior to 1970 and represent taxes paid in 1970.

Table A-8

Real Estate Taxes as Percentage of Value of Property
5-49 Unit Residential Rental Properties, By Value Class and By Region 1970

Value of Property	United States Total	North-east Region	North-central Region	South Region	West Region
Less than $10,000	3.5	6.2[1]	3.6[1]	1.2[1]	3.2[1]
$ 10,000- 24,999	3.5	4.9	3.2	2.2	2.8
25,000- 49,999	3.1	4.2	2.9	1.6	2.5
50,000- 74,999	2.8	3.8	3.0	1.6	2.5
75,000- 99,999	3.0	4.4	3.3	1.7	2.4
100,000-149,999	3.0	4.6	3.2	1.6	2.5
150,000-199,999	2.9	4.5	3.2	1.7	2.2
200,000-249,999	2.8	3.9	2.9	1.9[1]	2.5
250,000-299,999	2.8	3.7[1]	3.4[1]	2.0[1]	2.1
300,000-399,999	2.4	3.3[1]	2.8[1]	1.6[1]	2.1
400,000-499,999	2.5	3.4[1]	2.5[1]	1.8[1]	2.3[1]
500,000-749,999	2.1	3.4[1]	2.0[1]	1.2[1]	2.2[1]
750,000-999,999	1.8[1]	2.9[1]	2.6[1]	2.5[1]	1.2[1]
1,000,000 or more	3.4[1]	4.1[1]	3.9[1]	3.8[1]	2.4[1]
All values	**3.0**	**4.3**	**3.1**	**1.8**	**2.4**

[1]Based on sample of less than 25 observations.
Source: U.S. Bureau of the Census, *Residential Finance Survey, 1970* (conducted in 1971), special tabulations prepared for the Advisory Commission on Intergovernmental Relations. Real estate tax data were compiled for properties acquired prior to 1970 and represent taxes paid in 1970.

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Table A-9

Real Estate Taxes as Percentage of Rental Receipts
1-4 Unit Residential Rental Properties, By Value Class and By Region, 1970

Value of Property	United States Total	North-east Region	North-central Region	South Region	West Region
Less than $5,000	19.4	30.9	23.2	16.7	22.9[1]
$ 5,000- 7,499	22.0	32.1	23.4	19.5	19.4
7,500- 9,999	22.1	27.8	24.5	17.2	25.5
10,000-12,499	23.6	32.5	25.6	16.5	27.1
12,500-14,999	25.6	31.2[1]	25.4	22.1	28.2
15,000-17,499	26.1	40.5	26.1	18.7	27.7
17,500-19,999	29.1	35.5	24.8	26.2	31.8
20,000-24,999	27.7	36.7	27.4	17.6	29.7
25,000-29,999	30.3	35.3	28.7	23.5	31.6
30,000-39,999	29.8	37.1	28.1	25.2	29.8
40,000-49,999	28.1	30.8[1]	35.7[1]	22.4[1]	25.6
50,000-74,999	31.7	43.0[1]	19.7[1]	33.3[1]	31.8[1]
75,000-99,999	37.9[1]	51.6[1]	47.4[1]	25.5[1]	29.8[1]
100,000 or more	48.7[1]	42.7[1]	84.4[1]	19.0[1]	53.8[1]
All values	**25.2**	**34.4**	**26.0**	**19.5**	**28.2**

[1]Based on sample of less than 25 observations.
Note: Excluded from this tabulation are properties with less than 50 percent of the units in the rental market the entire year. Rental receipts and real estate tax data are for the year 1970.
Source: U.S. Bureau of the Census, *Residential Finance Survey, 1970* (conducted in 1971), special tabulations prepared for the Advisory Commission on Intergovernmental Relations.

Table A-10

Real Estate Taxes as Percentage of Rental Receipts
5-49 Unit Residential Rental Properties, By Value Class and By Region, 1970

Value of Property	United States Total	North-east Region	North-central Region	South Region	West Region
Less than $10,000	12.0	14.9[1]	10.3[1]	5.9[1]	17.6[1]
$ 10,000-24,999	18.3	24.5	16.1	13.1	17.0
25,000-49,999	20.9	25.3	18.8	13.6	21.4
50,000-74,999	21.4	25.6	20.0	14.1	22.3
75,000-99,999	21.7	27.6	23.8	13.7	19.5
100,000-149,999	23.3	25.8	25.3	16.2	23.1
150,000-199,999	24.2	31.8	27.9	16.2[1]	20.8
200,000-249,999	22.7	28.0[1]	23.0[1]	20.4[1]	19.9
250,000-299,999	24.5	24.9[1]	23.9[1]	13.8[1]	27.2
300,000-399,999	20.3	34.7[1]	19.1[1]	15.0[1]	17.0
400,000-499,999	19.1	26.2[1]	17.9[1]	13.8[1]	18.2[1]
500,000-749,999	21.1	25.3[1]	18.3[1]	25.0[1]	19.1[1]
750,000-999,999	25.0[1]	30.0[1]	25.3[1]	8.3[1]	23.6[1]
1,000,000 or more	29.2[1]	29.8[1]	30.3[1]	48.8[1]	22.5[1]
All values	**21.4**	**26.8**	**20.6**	**14.2**	**21.5**

[1]Based on sample of less than 25 observations.
Note: Excluded from this tabulation are properties with less than 50 percent of the units in the rental market the entire year. Rental receipts and real estate tax data are for the year 1970.
Source: U.S. Bureau of the Census, *Residential Finance Survey, 1970* (conducted in 1971), special tabulations prepared for the Advisory Commission on Intergovernmental Relations.

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Table A-11

Estimated Distribution, By Income Class, of The Benefits of State "Circuit-Breaker" Systems to Rebate to Renters And Homeowners Their Residential Property Taxes in Excess of Four Percent of Household Income, 1970[1]

	Total		Age 65 or Over		Under Age 65		Exhibit:					
Income Class[2]	Number With Estimated Real Estate Tax in Excess of 4% of Income (000)	Estimated Cost of "Circuit-Breaker" ($000,000)	Number With Estimated Real Estate Tax in Excess of 4% of Income (000)	Estimated Cost of "Circuit-Breaker ($000,000)	Number With Estimated Real Estate Tax in Excess of 4% of Income (000)	Estimated Cost of "Circuit-Breaker" ($000,000)	Total Number of Homeowners and Renters by Income Class (000)		Total Number of Homeowners and Renters age 65 or Over by Income Class (000)		Total Number of Homeowners and Renters Under age 65 by Income Class (000)	
							Number	Percent Receiving Rebate	Number	Percent Receiving Rebate	Number	Percent Receiving Rebate
Less than $3,000	7,588	1,119.7	3,769	591.2	3,819	5,285	8,437	89.9	4,352	86.6	4,085	93.5
$ 3,000 to $ 4,999	4,691	843.3	1,588	330.2	3,103	513.1	6,090	77.0	2,121	74.9	3,969	78.2
$ 5,000 to $ 6,999	4,083	1,057.4	760	175.5	3,323	881.9	6,354	64.3	1,181	64.4	5,173	64.2
$ 7,000 to $ 9,999	4,796	938.8	521	129.0	4,275	809.8	9,775	49.1	1,013	51.4	8,762	48.8
$10,000 to $14,999	4,551	1,091.5	302	84.2	4,249	1,007.3	12,672	35.9	783	38.6	11,889	35.7
$15,000 to 24,999	2,049	689.7	115	45.4	1,934	644.3	7,908	25.9	455	25.3	7,453	25.9
$25,000 or more	450	366.8	34	32.5	416	334.3	2,240	20.1	238	14.3	2,002	20.8
Total	**28,208**	**6,107.2**	**7,088**	**1,388.0**	**21,120**	**4,719.2**	**53,476**	**52.7**	**10,142**	**69.9**	**43,334**	**48.7**

[1]Assumes that all fifty states and the District of Columbia adopted such a plan. For renters, the property tax equivalent amount is assumed to be 25 percent of gross rent. Homeowner coverage is limited to one-unit owner-occupied nonfarm properties; one-family homes on 10 acres or more are excluded for renters.
[2]Census definition of income; see footnote on p. 34.
Source: ACIR staff estimates based on special tabulations provided by the U.S. Bureau of the Census from the *1970 Residential Finance Survey* and the *1970 Decennial Census* Sixth Count for renters.

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Table A-12

Estimated Distribution, By Income Class, of The Benefits of State "Circuit-Breaker" Systems to Rebate to Renters And Homeowners Their Residential Property Taxes in Excess of Five Percent of Household Income, 1970[1]

	Total		Age 65 or Over		Under Age 65		Exhibit:					
Income Class[2]	Number With Estimated Real Estate Tax in Excess of 5% of Income (000)	Estimated Cost of "Circuit-Breaker" ($000,000)	Number With Estimated Real Estate Tax in Excess of 5% of Income (000)	Estimated Cost of "Circuit-Breaker" ($000,000)	Number With Estimated Real Estate Tax in Excess of 5% of Income (000)	Estimated Cost of "Circuit-Breaker" ($000,000)	Total Number of Homeowners and Renters by Income Class (000)		Total Number of Homeowners and Renters age 65 or Over by Income Class (000)		Total Number of Homeowners and Renters Under age 65 by Income Class (000)	
							Number	Percent Receiving Rebate	Number	Percent Receiving Rebate	Number	Percent Receiving Rebate
Less than $3,000	7,311	978.5	3,598	523.0	3,713	455.5	8,437	86.7	4,352	82.7	4,085	90.9
$ 3,000 to $ 4,999	4,150	666.8	1,399	271.1	2,751	395.7	6,090	68.1	2,121	66.0	3,969	69.3
$ 5,000 to $ 6,999	3,130	841.1	612	134.5	2,518	706.6	6,354	49.3	1,181	51.8	5,173	48.7
$ 7,000 to $ 9,999	3,035	605.1	356	91.6	2,679	513.5	9,775	31.0	1,013	35.1	8,762	30.6
$10,000 to $14,999	2,594	651.2	200	53.5	2,394	597.7	12,672	20.5	783	25.5	11,889	20.1
$15,000 to $24,999	1,140	395.2	71	28.0	1,069	367.2	7,908	14.4	455	15.6	7,453	14.3
$25,000 or more	259	210.9	18	21.1	241	189.8	2,240	11.6	238	7.6	2,002	12.0
Total	**21,619**	**4,348.8**	**6,254**	**1,122.8**	**15,365**	**3,226.0**	**53,476**	**40.4**	**10,142**	**61.7**	**43,334**	**35.5**

[1]Assumes that all fifty states and the District of Columbia adopted such a plan. For renters, the property tax equivalent amount is assumed to be 25 percent of gross rent. Homeowner coverage is limited to one-unit owner-occupied nonfarm properties; one-family homes on 10 acres or more excluded for renters.
[2]Census definition of income; see footnote on p. 34.
Source: ACIR staff estimates based on special tabulations provided by the U.S. Bureau of the Census from the *1970 Residential Finance Survey* and the *1970 Decennial Census* Sixth Count for renters.

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Table A-13

Estimated Distribution, By Income Class, of The Benefits of State "Circuit-Breaker" Systems to Rebate to Renters And Homeowners Their Residential Property Taxes in Excess of Six Percent of Household Income, 1970[1]

	Total		Age 65 or Over		Under Age 65		Exhibit:					
Income Class[2]	Number With Estimated Real Estate Tax in Excess of 6% of Income (000)	Estimated Cost of "Circuit-Breaker" ($000,000)	Number With Estimated Real Estate Tax in Excess of 6% of Income (000)	Estimated Cost of "Circuit-Breaker ($000,000)	Number With Estimated Real Estate Tax in Excess of 6% of Income (000)	Estimated Cost of "Circuit-Breaker" ($000,000)	Total Number of Homeowners and Renters by Income Class (000)		Total Number of Homeowners and Renters age 65 or Over by Income Class (000)		Total Number of Homeowners and Renters Under age 65 by Income Class (000)	
							Number	Percent Receiving Rebate	Number	Percent Receiving Rebate	Number	Percent Receiving Rebate
Less than $ 3,000	6,979	844.6	3,401	458.7	3,578	385.9	8,437	82.7	4,352	78.1	4,085	87.6
$ 3,000 to $ 4,999	3,508	517.5	1,189	220.5	2,319	297.0	6,090	57.6	2,121	56.1	3,969	58.4
$ 5,000 to $ 6,999	2,262	369.4	467	103.4	1,795	266.0	6,354	35.6	1,181	39.5	5,173	34.7
$ 7,000 to $ 9,999	1,942	406.2	255	66.6	1,687	339.6	9,775	19.9	1,013	25.2	8,762	19.3
$10,000 to $14,999	1,707	402.2	130	33.3	1,577	368.9	12,672	13.5	783	16.6	11,889	13.3
$15,000 to $24,999	753	228.8	47	17.4	706	211.4	7,908	9.5	455	10.3	7,453	9.5
$25,000 or more	174	120.8	11	14.3	163	106.5	2,240	7.8	238	4.6	2,002	8.1
Total	**17,325**	**2,889.5**	**5,500**	**914.2**	**11,825**	**1,975.3**	**53,476**	**32.4**	**10,142**	**54.2**	**43,334**	**27.3**

[1]Assumes that all fifty states and the District of Columbia adopted such a plan. For renters, the property tax equivalent amount is assumed to be 25 percent of gross rent. Homeowner coverage is limited to one-unit owner-occupied nonfarm properties; one-family homes on 10 acres or more excluded for renters.
[2]Census definition of income; see footnote on p. 34.
Source: ACIR staff estimates based on special tabulations provided by the U.S. Bureau of the Census from the *1970 Residential Finance Survey* and the *1970 Decennial Census* Sixth Count for renters.

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TABLE A-14—ESTIMATED DISTRIBUTION, BY INCOME CLASS, OF THE BENEFITS OF STATE "CIRCUIT-BREAKER" SYSTEMS TO REBATE TO RENTERS AND HOMEOWNERS THEIR RESIDENTIAL PROPERTY TAXES IN EXCESS OF SEVEN PERCENT OF HOUSEHOLD INCOME, 1970[1]

Income class[2]	Total		Age 65 or Over		Under Age 65		Exhibit—					
	No. with est. real estate tax in excess of 7% of income (000)	Estimated cost of "circuit breaker" ($000,000)	No. with est. real estate tax in excess of 7% of income (000)	Estimated cost of "circuit breaker" ($000,000)	No. with est. real estate tax in excess of 7% of income (000)	Estimated cost of "circuit breaker" ($000,000)	Total no. of homeowners & renters by income class (000)		Total no. of homeowners & renters age 65 & over by income class (000)		Total no. of homeowners & renters under age 65 by income class (000)	
							Number	% receiving rebate	Number	% receiving rebate	Number	% receiving rebate
Less than $3,000	6,505	714.4	3,124	395.5	3,381	318.9	8,437	77.1	4,352	71.8	4,085	82.8
$3,000 to $4,999	2,762	382.6	971	175.7	1,791	206.9	6,090	45.4	2,121	45.8	3,969	45.1
$5,000 to $6,999	1,526	245.9	349	78.2	1,177	167.7	6,354	24.0	1,181	29.6	5,173	22.8
$7,000 to $9,999	1,209	263.5	183	46.6	1,026	216.9	9,775	12.4	1,013	18.1	8,762	11.7
$10,000 to $14,999	1,018	228.5	87	22.2	931	206.3	12,672	8.0	783	11.1	11,889	7.8
$15,000 to $24,999	407	117.3	32	10.5	375	106.8	7,908	5.1	455	7.0	7,453	5.0
$25,000 or more	93	59.8	8	9.6	85	50.2	2,240	4.2	238	3.4	2,002	4.2
Total	13,520	2,012.0	4,754	738.3	8,766	1,273.7	53,476	25.3	10,142	46.9	43,334	20.2

[1] Assumes that all fifty states and the District of Columbia adopted such a plan. For renters, the property tax equivalent amount is assumed to be 25 percent of gross rent. Homeowner coverage is limited to one-unit owner-occupied nonfarm properties; one-family homes on 10 acres or more excluded for renters.

[2] Census definition of income, see footnote on page 00

Source: ACIR staff estimates based on special tabulations provided by the U.S. Bureau of the Census from the *1970 Residential Finance Survey* and the *1970 Decennial Census* Sixth Count for renters.

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Table A-15

Real Estate Taxes As A Percentage of Household Income for Owner-occupied Single-Family Homes, By Income Class and Age Group, 1970[1]

Income Class	All Homeowners				Percentage of Homeowners With Real Estate Taxes at the Following Percentages of Income							
	Age Group	Number (000)	Percent Distribution Cumulated from Lowest Income Class	Real Estate Tax as Percent of Income (mean average)	Less Than 1%	1.0% to 1.9%	2.0% to 2.9%	3.0% to 3.9%	4.0% to 4.9%	5.0% to 7.4%	7.5% to 9.9%	10.0% or More
Less than $ 3,000	Under 65	820	3.3	14.6	5.9%	7.8%	7.0%	6.2%	6.7%	12.6%	9.0%	44.9%
	65 or over	2,187	34.7	13.2	4.3	5.9	7.7	7.7	6.3	14.3	10.9	42.9
$ 3,000 to $ 4,999	Under 65	1,263	8.4	6.4	10.8	11.3	13.8	12.6	7.1	15.9	10.3	18.2
	65 or over	1,478	58.2	7.7	4.0	9.6	8.3	10.7	8.8	19.0	12.0	27.6
$ 5,000 to $ 6,999	Under 65	2,069	16.7	4.7	11.8	16.3	15.5	12.3	8.5	17.5	7.4	10.6
	65 or over	826	71.4	6.0	5.1	14.7	11.3	10.5	9.8	21.9	11.5	15.2
$ 7,000 to $ 9,999	Under 65	4,663	35.5	4.1	10.1	18.9	16.4	13.6	12.4	16.6	6.6	5.3
	65 or over	715	82.7	4.8	7.4	12.2	18.2	13.5	14.2	16.8	9.7	8.2
$10,000 to $14,999	Under 65	8,343	69.1	3.7	7.6	18.4	21.3	16.7	12.7	15.4	5.3	2.5
	65 or over	566	91.7	3.9	7.6	19.6	19.2	14.6	10.9	17.8	6.8	3.6
$15,000 to $24,999	Under 65	5,998	93.2	3.3	7.5	20.0	24.5	19.6	11.8	12.5	2.9	1.2
	65 or over	339	97.1	3.3	9.4	22.4	20.2	20.6	9.5	11.4	3.7	2.8
$25,000 or more	Under 65	1,692	100.0	2.9	10.1	26.2	24.8	15.6	9.5	10.4	2.9	0.6
	65 or over	183	100.0	2.7	16.2	27.3	15.8	24.9	7.0	6.2	0.9	1.9
All classes	**Under 65**	**24,848**		**4.1**	**8.7**	**18.5**	**20.1**	**15.8**	**11.4**	**14.7**	**5.4**	**5.5**
	65 or over	**6,294**		**8.1**	**5.6**	**11.4**	**11.4**	**11.2**	**8.8**	**16.6**	**10.1**	**24.9**
Total		**31,142**		**4.9**	**8.1**	**17.1**	**18.3**	**14.9**	**10.9**	**15.1**	**6.3**	**9.4**

[1]Limited to one-family homes on less than 10 acres and no business property.

Source: ACIR staff computations based on special tabulations provided by the U.S. Bureau of the Census from the *1970 Residential Finance Survey*.

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Table A-16

Estimated Property Taxes Paid By Renters As A Percentage of Income, By Income Class and Age Group, 1970[1]

Income Class	All Households			Percentage of Households with Estimated Real Estate Taxes at the Following Percentages of Income					
	Age Group	Number (000)	Percent Distribution Cumulated from Lowest Income Class	Under 2.5%	2.5% to 3.75%	3.75% to 5.0%	5.0% to 6.25%	6.25% to 8.75%	8.75% or More
Less than $3,000	Under 65	3,264	17.7%	0.2%	0.8%	1.9%	3.4%	10.2%	83.5%
	65 or Over	2,165	56.3	0.1	0.7	1.9	4.2	13.4	79.7
$ 3,000 to $ 4,999	Under 65	2,705	32.3	1.5	5.3	12.1	16.8	31.0	33.2
	65 or Over	643	73.0	1.1	4.8	11.4	16.9	31.2	34.7
5,000 to $ 6,999	Under 65	3,104	49.1	3.4	13.8	25.4	23.1	25.2	9.1
	65 or Over	355	82.2	3.7	13.6	23.4	21.1	25.5	12.6
$ 7,000 to $ 9,999	Under 65	4,100	71.3	7.8	28.4	31.0	19.8	11.2	1.9
	65 or Over	298	89.9	9.2	27.8	26.4	18.3	13.9	4.3
$10,000 to $14,999	Under 65	3,546	90.4	18.9	40.3	28.0	9.1	3.2	0.5
	65 or Over	217	95.6	23.0	35.0	23.7	10.1	6.2	1.9
$15,000 to $24,999	Under 65	1,456	98.3	38.6	43.0	13.6	3.5	1.2	0.1
	65 or Over	115	98.6	43.9	34.0	13.4	5.2	2.8	0.7
$25,000 or more	Under 65	310	100.0	70.4	21.9	5.9	1.3	0.5	0.1
	65 or Over	55	100.0	69.1	20.7	7.1	1.9	1.0	0.2
All Classes	**Under 65**	**18,485**		**10.7**	**21.5**	**20.2**	**13.6**	**13.8**	**20.2**
	65 or Over	**3,848**		**5.2**	**8.3**	**9.4**	**9.6**	**16.7**	**50.9**
Total		**22,334**		**9.8**	**19.3**	**18.4**	**12.9**	**14.3**	**25.3**

[1]The property tax equivalent amount is assumed to be 25 percent of gross rent. Excludes one-family homes on 10 acres or more.
Source: ACIR staff computations based on U.S. Bureau of the Census, *1970 Census of Housing* data.

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TABLE A-17 — THE ESTIMATED BURDEN OF MAJOR FEDERAL, STATE AND LOCAL TAXES FOR A HYPOTHETICAL FAMILY OF FOUR, FOR VARIOUS FAMILY INCOME GROUPS, 1953 AND 1972[1]

Type of Tax	Estimated Tax as a Percent of Family Income by Income Group											
	1972						1953					
	$5,000	$7,500	$10,000	$20,000	$25,000	$50,000	$5,000	$7,5000	$10,000	$20,000	$25,000	$50,000
Federal Personal Income Tax	3.0%	6.2%	8.4%	13.4%	15.1%	23.2%	7.6%	10.8%	13.3%	18.3%	20.4%	
Social Security Tax (OASDHI)	5.2	5.2	4.7	2.3	1.9	0.9	1.1	0.7	0.5	0.3	0.2	
Major State and Local Taxes	6.9	6.3	6.4	6.5	6.5	6.9	3.1	3.1	3.2	3.4	3.4	
Property	4.6	3.6	3.5	3.1	2.9	2.5	2.2	2.0	1.8	1.7	1.6	
Personal Income	0.5	1.1	1.5	2.3	2.7	3.7	0.3	0.6	0.9	1.3	1.5	
General Sales	1.8	1.6	1.4	1.1	0.9	0.7	0.6	0.5	0.5	0.4	0.3	
Total	15.1	17.7	19.5	22.2%	23.5	31.0	11.8	14.6	17.0	23.8	24.0	

data not available

[1]Assumes all income from wages and salaries earned by one spouse.
Source: ACIR Staff computations.

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TABLE A-18 — THE ESTIMATED BURDEN OF MAJOR STATE AND LOCAL TAXES FOR A HYPOTHETICAL FAMILY OF FOUR, FOR VARIOUS FAMILY INCOME GROUPS, SELECTED CITIES, 1971-72

Family[1] Income	Tax	Estimated major state and local taxes as a percentage at family income										
		U.S. Average	City Average	Minn.	Boston	New York	Chicago	Atlanta (Fulton Co)	Houston	Denver	Los Angeles	Seattle
$ 7,500	Residential Property	3.6	6.6	7.6	13.0	7.8	6.9	2.7	1.8	5.2	8.3	6.1
	Personal Income	1.1	1.2	3.9	2.0	2.0	1.2	0.4	0.0	0.9	0.1	0.0
	General Sales	1.6	1.8	0.9	0.3	2.6	2.3	2.1	1.5	2.9	1.4	2.4
	Total	6.3	9.6	12.4	15.3	12.4	10.4	5.2	3.3	9.0	9.8	8.5
$12,000	Residential Property	3.4	4.6	5.4	8.9	5.4	4.8	2.0	1.4	3.8	5.8	4.3
	Personal Income	1.8	2.0	5.4	3.0	3.4	1.7	1.4	0.0	1.9	1.0	0.0
	General Sales	1.4	1.6	0.8	0.3	2.3	1.9	1.8	1.3	2.4	1.3	2.0
	Total	6.6	8.2	11.6	12.2	11.1	8.4	5.2	2.7	8.1	8.1	6.3
$25,000	Residential Property	2.9	2.7	3.0	5.1	3.0	2.7	1.3	0.9	2.2	3.4	2.5
	Personal Income	2.7	3.2	6.5	4.0	6.6	2.1	3.1	0.0	3.3	3.0	0.0
	General Sales	0.9	1.1	0.6	0.3	1.6	1.3	1.2	1.0	1.7	1.0	1.4
	Total	6.5	7.0	10.1	9.4	11.2	6.1	5.6	1.9	7.2	7.4	3.9
$50,000	Residential Property	2.5	2.1	2.3	3.9	2.2	2.1	1.0	0.8	1.6	2.8	1.8
	Personal Income	3.7	4.3	6.9	4.4	11.1	2.3	4.1	0.0	3.9	5.6	0.0
	General Sales	0.7	0.8	0.5	0.2	1.2	1.0	0.9	0.7	1.2	0.7	1.0
	Total	6.9	7.1	9.7	8.5	14.5	5.4	6.0	1.5	6.7	9.1	2.8

Note: The nine cities selected for this tabulation are generally representative of large urban centers in each of the major regions of the nation. The data are presented here to illustrate that the State-local tax burden borne by residents of large cities is well above the national average. It should be noted, however, that these data apply only to the "big three" taxes on personal income, retail sales and residential property. Because numerous indirect taxes, as well as fees and charges are excluded, this tabulation is not appropriate for ranking the cities on the basis of total tax burdens.

[1] Assumes all income from wages and salaries earned by one spouse.

Source: ACIR staff computations

Estimated sales tax payments are based on the 1972 Optional Sales Tax tables prepared by the Internal Revenue Service for sales tax deductions. Income tax payments were determined by applying the respective State (and local) income tax laws to the hypothetical incomes and size of family, with specific assumptions made concerning the size of deductions. Property tax payments were derived by multiplying the apparent effective rate times the presumed house value. The effective rate of the property tax was calculated by multiplying the nominal property tax rate of each place (as reported in Commerce Clearing House, *State Tax Reporter*) times the assessment ratio reported in the *1967 Census of Governments*, except where there was reliable information that this assessment ratio had changed materially since 1966. The presumed house value for each family in each region was based on *Metropolitan Housing Characteristics* (1970 Census of Housing) for the appropriate SMSA.

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Table A-19

Intra-Area Coefficients of Dispersion and Median Assessment Ratios—Single-Family Homes, Selected Major Cities And Their Related Counties, 1956, 1961 and 1966

City and County	Coefficient of Dispersion from Median Assessment Ratio Based on Measurable Sales of Nonfarm Single-Family Houses During A 6-Month Period								Median Assessment Ratio, 1966	
	City				County				City	County
	1966 Coefficient	A or E[1]	1961	1956	1966 Coefficient	A or E[1]	1961	1956		
Birmingham, Jefferson, Ala.	16.1	E*	27.5	NA	14.9	E	28.9	27.0	28.1	28.7
Mobile, Mobile, Ala.	17.8	E*	NA	NA	17.2	E	21.1	36.1	20.7	20.7
Montgomery, Montgomery, Ala.	17.8	E*	NA	NA	19.1	E	18.0	27.9	18.2	18.0
Phoenix, Maricopa, Arizona	15.8	E*	20.1	NA	16.0	E	24.8	25.8	21.8	21.4
Tucson, Pima, Arizona	25.2	E*	NA	NA	27.9	E	22.9	33.1	17.3	17.5
Little Rock, Pulaski, Arkansas	16.5	E*	NA	NA	17.6	E	27.6	29.5	17.1	17.5
Berkeley, Alameda, California	14.5	E*	NA	NA	13.6	E	16.8	18.9	13.0	15.9
Oakland, Alameda, California	12.1	E*	19.3	NA	13.6	E	16.8	18.9	14.9	15.9
Fresno, Fresno, California	9.4	E*	NA	NA	10.6	E	22.5	30.2	19.9	19.9
Glendale, Los Angeles, California	11.8	E*	NA	NA	16.4	E	17.5	7.0	21.9	19.0
Long Beach, Los Angeles, Calif.	12.4	E*	16.2	NA	16.4	E	17.5	7.0	17.7	19.0
Los Angeles, Los Angeles, Calif.	17.0	E*	19.3	NA	16.4	E	17.5	7.0	19.8	19.0
Pasadena, Los Angeles, Calif.	18.2	E*	NA	NA	16.4	E	17.5	7.0	19.9	19.0
Torrance, Los Angeles, Calif.	13.1	E*	NA	NA	16.4	E	17.5	7.0	19.4	19.0
Anaheim, Orange, California	7.2	E*	NA	NA	11.3	E	19.4	16.4	20.0	19.9
Santa Ana, Orange, California	9.5	E*	NA	NA	11.3	E	19.4	16.4	20.7	19.9
Sacramento, Sacramento, Calif.	13.5	E*	NA	NA	11.5	E	20.0	17.0	23.4	23.9
San Diego, San Diego, Calif.	18.2	E*	NA	NA	17.1	E	19.9	19.5	22.8	22.1
San Francisco, Calif.	28.9	E	36.1	31.8	—	—	—	—	9.1	—
San Jose, Santa Clara, Calif.	9.4	E*	NA	NA	10.6	E	12.8	15.0	22.5	21.8
Denver, Colorado	11.9	E	18.8	19.0	—	—	—	—	29.1	—
Bridgeport, Connecticut	18.7	A	20.6	20.3	—	—	—	—	32.9	—
Hartford, Connecticut	12.3	A	25.9	14.6	—	—	—	—	57.8	—
New Haven, Connecticut	14.3	A	19.5	23.4	—	—	—	—	51.3	—
Waterbury, Connecticut	12.7	A	10.5	22.8	—	—	—	—	89.2	—
Washington, D.C.	16.9	A	19.2	21.4	—	—	—	—	44.1	—
Miami, Dade, Florida	15.6	E*	NA	NA	12.5	E	19.8	19.3	82.3	83.2
Jacksonville, Duval, Fla.	13.4	E*	NA	NA	11.6	E	22.8	22.3	76.3	93.1
Tampa, Hillsborough, Fla.	13.3	E*	NA	NA	14.1	E	23.9	25.0	51.8	51.5
St. Petersburg, Pinellas, Fla.	19.2	E*	NA	NA	16.1	E	22.3	34.3	76.0	74.6
Savannah, Chatham, Georgia	20.3	A*	NA	NA	19.0	A	43.4	46.2	38.8	39.8
Atlanta, Fulton (part), Ga.	18.3	A*	18.1	NA	16.7	A	21.7	31.9	18.5	18.8
Columbus, Muscogee, Ga.	14.5	A*	NA	NA	12.0	A	27.1	31.1	34.7	35.7
Honolulu, Hawaii	16.5	A**	18.9	NA	—	—	—	—	62.6	—
Chicago, Cook, Illinois	24.5	E*	32.4	NA	20.3	E	26.1	29.4	35.8	36.4

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City and County	Coefficient of Dispersion from Median Assessment Ratio Based on Measurable Sales of Nonfarm Single-Family Houses During A 6-Month Period								Median Assessment Ratio, 1966	
	City				County				City	County
	1966 Coefficient	A or E[1]	1961	1956	1966 Coefficient	A or E[1]	1961	1956		
Peoria, Peoria, Illinois	21.2	E*	NA	NA	16.9	E	31.6	35.7	52.8	51.7
Rockford, Winnebago, Illinois	18.6	E*	NA	NA	18.5	E	21.6	23.7	51.8	48.8
Fort Wayne, Allen, Indiana	18.7	E[3]	NA	NA	17.3	E[3]	32.2	26.8	30.1	29.7
Gary, Lake, Indiana	18.7	E[3]	NA	NA	21.2	E[3]	36.7	27.0	16.9	18.1
Hammond, Lake, Indiana	16.4	E[3]	NA	NA	21.2	E[3]	36.7	27.0	17.5	18.1
Indianapolis, Marion, Indiana	19.3	E[3]	28.1	NA	16.5	E[3]	27.0	26.6	30.4	30.3
South Bend, St. Joseph, Indiana	20.6	E[3]	NA	NA	19.1	E[3]	36.3	34.4	29.2	28.3
Evansville, Vanderburgh, Indiana	17.2	E[3]	NA	NA	18.2	E[3]	28.8	2[2]	25.5	24.9
Des Moines, Polk, Iowa	14.6	A*	NA	NA	12.9	A	17.1	49.4	25.9	25.5
Wichita, Sedgwick, Kansas	14.6	E*	NA	NA	14.4	E	20.9	24.7	27.4	27.2
Topeka, Shawnee, Kansas	19.7	E*	NA	NA	20.5	E	24.9	30.8	19.9	19.5
Kansas City, Wyandotte, Kansas	32.9	E*	NA	NA	30.9	E	45.9	39.5	13.8	12.8
Louisville, Jefferson, Kentucky	13.6	E*	25.0	NA	12.3	E	23.3	21.7	93.0	97.2
Shreveport, Caddo (part) Louisiana	17.0	E	NA	NA	15.8	E	22.3	39.7	32.2	32.1
New Orleans, Orleans, Louisiana	26.9	E	36.8	34.9	—	—	—	—	23.9	—
Baltimore City, Maryland	24.3	A	25.8	25.4	—	—	—	—	71.9	—
New Bedford, Bristol, Massachusetts	23.1	E	17.4	26.7	—	—	—	—	31.8	—
Springfield, Hampden, Mass.	8.7	A	26.2	15.0	—	—	—	—	72.1	—
Cambridge, Middlesex, Mass.	15.8	A	NA	42.2	—	—	—	—	29.9	—
Boston, Suffolk, Massachusetts	28.9	A	38.4	38.5	—	—	—	—	30.1	—
Worcester, Worcester, Mass.	18.9	A	19.2	16.8	—	—	—	—	43.8	—
Flint, Genesee, Michigan	11.7	A	24.7	29.5	—	—	—	—	45.8	—
Lansing, Ingham, Michigan	12.3	A	19.5	30.0	—	—	—	—	38.9	—
Grand Rapids, Kent, Michigan	11.3	A	23.1	36.1	—	—	—	—	37.5	—
Dearborn, Wayne, Michigan	13.6	A	11.7	28.8	—	—	—	—	16.7	—
Detroit, Wayne, Michigan	20.4	A	26.9	21.4	—	—	—	—	40.2	—
Minneapolis, Hennepin, Minn.	19.1	A	32.6	NA	19.6	A	29.3	30.0	9.1	9.1
St. Paul, Ramsey, Minn.	24.7	A*	29.1	NA	26.7	A	29.1	2[2]	7.7	8.4
Duluth, St. Louis, Minn.	31.7	A	NA	NA	34.0	A	32.6	36.7	8.9	7.6
Jackson, Hinds, Mississippi	18.1	E*	NA	NA	18.5	E	14.0	21.3	21.9	20.9
Kansas City, Jackson (part), Mo.	24.5	A*	25.3	NA	25.3	A	28.7	23.1	25.6	24.3
St. Louis City, Mo.	26.4	A	32.8	23.0	—	—	—	—	34.6	—
Omaha, Douglas, Nebraska	18.2	E*	25.8	NA	17.5	E	25.8	25.3	38.1	37.6
Lincoln, Lancaster, Nebraska	15.4	E*	NA	NA	17.1	E	18.7	16.5	30.9	30.9
Camden, Camden, New Jersey	16.7	A	NA	NA	14.5	A	44.0	2[2]	43.0	46.5
Newark, Essex, New Jersey	19.7	A	22.1	NA	15.5	A	18.8	21.4	67.3	82.0
Jersey City, Hudson, N.J.	34.6	A	NA	NA	39.9	A	38.1	32.8	26.7	24.0
Trenton, Mercer, N.J.	24.1	A	NA	NA	17.7	A	50.9	36.1	44.8	41.3
Paterson, Passaic, N.J.	10.0	A	NA	NA	13.3	A	24.9	26.4	73.0	86.4
Elizabeth, Union, N.J.	13.1	A	NA	NA	12.3	A	19.0	21.0	46.9	41.8
Albuquerque, Bernalillo, N.M.	18.1	E*	NA	NA	18.3	E	15.5	21.3	15.6	15.6

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City and County	Coefficient of Dispersion from Median Assessment Ratio Based on Measurable Sales of Nonfarm Single-Family Houses During A 6-Month Period								Median Assessment Ratio, 1966	
	City				County				City	County
	1966 Coefficient	A or E[1]	1961	1956	1966 Coefficient	A or E[1]	1961	1956		
Albany, Albany, New York	16.2	A	NA	NA	69.2	A	35.6	2[2]	44.1	15.6
Buffalo, Erie, New York	19.8	A	NA	NA	57.0	A	26.1	28.5	63.2	21.4
Rochester, Monroe, New York	24.5	A	21.5	NA	34.3	A	21.4	36.7	37.3	26.3
Niagara Falls, Niagara, New York	32.4	A	NA	NA	48.0	A	47.0	2[2]	24.5	28.3
Utica, Oneida, New York	21.8	E	NA	NA	NA	A	57.0	43.4	51.0	NA
Syracuse, Onondaga, New York	21.9	A	NA	NA	49.6	A	24.9	34.2	44.9	19.0
Yonkers, Westchester, New York	20.7	A	NA	NA	39.8	A	29.9	26.3	44.2	38.5
New York City, New York	23.1	A	23.2	30.6	—	—	—	—	41.1	—
Winston-Salem, Forsyth, N.C.	10.4	A*	NA	NA	12.8	A	18.3	30.2	47.2	47.1
Greensboro, Guilford, N.C.	8.2	A*	NA	NA	10.1	A	18.4	27.6	63.3	62.2
Charlotte, Mecklenburg, N.C.	14.7	A*	NA	NA	14.5	A	16.0	16.5	47.5	47.6
Cleveland, Cuyahoga, Ohio	15.8	E*	16.7	NA	14.7	E	16.5	18.4	33.3	33.9
Columbus, Franklin, Ohio	12.8	E*	16.4	NA	12.8	E	16.6	16.4	37.8	37.9
Cincinnati, Hamilton, Ohio	15.2	E*	14.9	NA	16.8	E	15.9	19.0	44.4	45.2
Toledo, Lucas, Ohio	14.3	E*	26.0	NA	14.1	E	25.7	18.2	36.8	36.5
Youngstown, Mahoning (part) Ohio	26.8	E*	NA	NA	21.4	E	22.7	24.8	43.3	40.4
Dayton, Montgomery, Ohio	18.5	E*	NA	NA	11.8	E	25.9	22.4	38.5	40.3
Canton, Stark, Ohio	17.8	E*	NA	NA	15.9	E	22.3	22.7	42.6	40.8
Akron, Summit, Ohio	16.7	E*	NA	NA	16.4	E	15.3	14.3	39.3	38.7
Oklahoma City, Oklahoma	18.7	E*	NA	NA	18.0	E	22.4	24.0	21.9	22.0
Tulsa, Tulsa, Oklahoma	15.4	E*	NA	NA	17.3	E	17.2	23.5	25.6	25.1
Portland, Multnomah (part) Ore.	18.3	E*	19.3	NA	18.0	E	20.2	22.6	21.7	22.0
Pittsburgh, Allegheny, Pa.	20.4	A*	28.7	NA	19.9	A	23.4	24.6	40.7	41.5
Erie, Erie, Pa.	34.0	A*	NA	NA	32.8	A	32.6	28.1	26.3	26.1
Scranton, Lackawanna, Pa.	15.7	A*	NA	NA	29.1	A	39.5	2[2]	16.7	17.7
Allentown, Lehigh, Pa.	15.6	A*	NA	NA	15.8	A	28.7	26.8	26.6	24.9
Philadelphia, Pa.	26.3	A	23.7	22.5	—	—	—	—	58.4	—
Providence, Providence, R.I.	15.4	A	18.3	28.0	—	—	—	—	68.1	—
Chattanooga, Hamilton, Tenn.	23.4	E*	NA	NA	18.8	E	15.4	27.9	34.9	38.9
Knoxville, Knox, Tenn.	22.1	E*	NA	NA	25.9	E	29.0	29.4	27.1	25.0
Memphis, Shelby, Tenn.	10.8	E*	14.9	NA	10.3	E	18.2	28.2	47.9	47.6
Nashville, Davidson, Tenn.	19.0	E	NA	NA	—	—	18.6	25.8	33.4	—
San Antonio, Bexar, Texas	21.3	E*	23.4	NA	19.2	E	22.6	31.1	23.2	23.2
Dallas, Dallas, Texas	72.6	E*	19.3	NA	48.4	E	19.4	20.0	19.9	19.9
El Paso, El Paso, Texas	12.8	E*	—	NA	12.8	E	20.5	—	18.4	18.4
Houston, Harris, Texas	19.0	E*	NA	NA	18.7	E	26.2	29.3	18.8	18.5
Beaumont, Jefferson, Texas	30.2	E*	NA	NA	26.5	E	29.0	23.8	13.9	14.1
Lubbock, Lubbock, Texas	23.3	E*	NA	NA	23.5	E	25.9	25.9	29.0	29.0
Corpus Christi, Nueces, Texas	18.9	E*	NA	NA	22.5	E	22.1	19.8	26.3	26.0
Amarillo, Potter, Texas	17.9	E*	NA	NA	17.9	E	22.0	—	20.4	20.4

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City and County	Coefficient of Dispersion from Median Assessment Ratio Based on Measurable Sales of Nonfarm Single-Family Houses During A 6-Month Period								Median Assessment Ratio, 1966	
	City				County				City	County
	1966 Coefficient	A or E[1]	1961	1956	1966 Coefficient	A or E[1]	1961	1956		
Fort Worth, Tarrant, Texas	18.3	E*	23.0	NA	17.9	E	24.7	26.1	25.9	25.9
Austin, Travis, Texas	15.4	E*	NA	NA	16.7	E	23.1	28.3	20.7	20.5
Wichita Falls, Wichita, Texas	12.5	E*	NA	NA	14.6	E	23.0	33.1	27.6	27.5
Salt Lake City, Salt Lake, Utah	26.8	E*	NA	NA	21.0	E	22.3	18.8	16.3	17.2
Newport News, Virginia	10.2	A	19.0	NA	—	—	—	—	34.2	—
Norfolk, Virginia	16.1	A	14.5	21.6	—	—	—	—	39.2	—
Portsmouth, Virginia	3.8	A	49.7	18.3	—	—	—	—	62.7	—
Richmond, Virginia	13.6	A	16.0	16.0	—	—	—	—	82.4	—
Seattle, King, Washington	18.2	E*	22.8	NA	19.2	E	24.8	24.3	15.2	15.2
Tacoma, Pierce, Washington	22.7	E*	NA	NA	24.2	E	23.3	29.1	17.1	16.9
Spokane, Spokane, Washington	17.0	E*	NA	NA	15.2	E	21.0	22.5	24.0	22.9
Madison, Dane, Wisconsin	11.9	A	12.5	12.3	—	—	—	—	54.7	—
Milwaukee, Milwaukee, Wisconsin	17.4	A	16.3	16.8	—	—	—	—	48.8	—

NA—Data not available.
*—Based on assessments placed on property in the city by the county assessor.
**—Based on assessments placed on property in the city by the State Department of taxation.
[1] A—Appointive Assessor; E—Elective Assessor
[2] 50 or over
[3] Based on assessments placed on property in the city by the township assessor and equalized by the county.
Source: U.S. Bureau of the Census, *1967 Census of Governments, Vol. 2, Taxable Property Values*, Table 19; *1962 Census of Governments, Vol. 2, Taxable Property Values*, Table 22; and *1957 Census of Governments, Vol. V, Taxable Property Values*, Table 22.

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Table A-20

Relative Assessment Ratios By Class of Property And Value Size, Selected Major Cities, 1966

City	Ratios of Assessed Value to Sales Price: Lower Half of Assessed Value Classes	Upper Half of Assessed Value Classes	Lower Half as Percent of Upper Half [Col 1 ÷ Col 2]	Single Family Residential	Multi-Family Residential	Total Residential	Commercial and Industrial	Single Family as Percent of Multi-Family [Col 4 ÷ Col 5]	Total Residential as Percent of Commercial and Industrial [Col 6 ÷ Col 7]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Birmingham, Ala.	24.7	27.2	91	27.9	26.6	27.7	8.1	105	1/
Mobile, Ala.	19.2	21.8	88	20.8	31.6	20.9	n.r.	66	n.c.
Montgomery, Ala.	17.9	16.9	106	17.6	20.3	17.8	8.2	87	1/
Phoenix, Ariz.	17.6	20.4	86	21.1	21.0	21.1	11.5	100	183
Tucson, Ariz.	15.4	17.4	89	17.1	14.5	16.8	9.7	118	1/
Little Rock, Ark.	15.1	17.5	86	17.6	17.0	17.5	15.2	104	1/
Berkeley, Calif.	12.7	13.1	97	12.8	11.5	12.6	14.7	111	1/
Oakland, Calif.	14.4	15.7	92	14.7	12.8	14.3	17.5	115	1/
Fresno, Calif.	19.0	17.1	111	20.0	19.7	20.0	16.1	102	1/
Glendale, Calif.	20.0	22.2	90	21.8	20.0	21.5	23.6	109	1/
Long Beach, Calif.	17.2	22.1	78	17.6	20.3	18.1	23.2	87	78
Los Angeles, Calif.	17.7	21.1	84	19.7	23.1	20.2	16.4	85	123
Pasadena, Calif.	18.8	24.2	77	21.5	25.5	22.2	n.r.	84	n.c.
Torrance, Calif.	17.1	18.2	94	17.6	16.0	17.6	n.r.	110	n.c.
Anaheim, Calif.	17.9	16.5	108	19.8	21.4	20.1	10.4	93	1/
Santa Ana, Calif.	20.5	20.5	100	20.4	18.3	20.2	n.r.	111	n.c.
Sacramento, Calif.	22.5	18.0	125	21.8	15.4	20.9	16.4	142	1/
San Diego, Calif.	22.6	18.3	124	22.9	18.1	21.7	11.6	127	1/
San Jose, Calif.	20.6	21.4	96	22.0	23.2	22.0	19.2	95	1/
San Francisco, Calif.	9.3	14.5	65	9.6	12.2	10.3	15.6	79	66
Denver, Colo.	28.0	29.8	94	28.9	28.2	28.8	29.2	102	99
Bridgeport, Conn.	30.9	48.5	64	34.4	33.7	34.2	48.0	102	71
Hartford, Conn.	51.4	55.8	92	56.7	52.4	53.9	57.1	108	94
New Haven, Conn.	48.3	44.5	109	51.2	51.2	51.2	38.6	100	133
Waterbury, Conn.	73.3	91.9	80	91.4	92.2	91.5	65.3	99	1/
Washington, D.C.	43.0	43.3	99	43.2	46.5	43.8	39.5	93	111
Miami, Fla.	78.1	68.3	114	83.6	76.4	81.0	60.8	109	1/
Jacksonville, Fla.	78.7	105.2	75	78.6	85.1	80.4	108.8	92	1/
Tampa, Fla.	49.6	47.9	104	49.9	46.6	49.7	45.7	107	1/
St. Petersburg, Fla.	65.2	78.3	83	78.0	68.7	77.6	85.6	114	1/

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Ratios of Assessed Value to Sales Price

City	Lower Half of Assessed Value Classes	Upper Half of Assessed Value Classes	Lower Half as Percent of Upper Half [Col 1 ÷ Col 2]	Single Family Residential	Multi-Family Residential	Total Residential	Commercial and Industrial	Single Family as Percent of Multi-Family [Col 4 ÷ Col 5]	Total Residential as Percent of Commercial and Industrial [Col 6 ÷ Col 7]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Savannah, Ga.	33.6	35.7	94	37.5	38.5	37.7	23.9	97	1/
Atlanta, Ga. (Fulton Co. Part)	17.7	20.4	87	18.9	18.0	18.8	19.5	105	96
Atlanta, Ga. (DeKalb Co. Part)	82.2	83.5	98	83.4	n.r.	n.r.	n.r.	n.c.	n.c.
Columbus, Ga.	31.0	35.4	87	34.8	31.9	34.7	n.r.	109	n.c.
Honolulu, Hawaii	56.0	63.9	88	63.4	51.9	62.3	57.2	122	109
Chicago, Ill.	31.5	49.7	63	36.3	42.7	37.9	57.4	85	66
Peoria, Ill.	50.1	50.9	98	50.9	49.1	50.8	55.3	104	1/
Rockford, Ill.	49.5	57.1	87	53.9	47.7	53.1	77.2	113	1/
Fort Wayne, Ind.	27.1	30.7	88	28.7	33.1	28.8	40.7	87	1/
Gary, Indiana	16.2	19.5	83	17.2	18.3	17.3	34.6	94	1/
Hammond, Ind.	16.5	19.9	83	18.0	18.4	18.1	55.0	98	1/
Indianapolis, Ind.	31.1	32.6	95	30.4	34.1	31.0	50.1	89	62
South Bend, Ind.	27.3	27.5	99	27.9	15.7	27.6	n.r.	178	n.c.
Evansville, Ind.	22.9	26.9	85	25.7	38.9	26.7	15.9	66	1/
Des Moines, Iowa	26.3	24.8	106	25.2	25.2	25.2	25.3	100	1/
Wichita, Kansas	27.8	27.0	103	27.7	17.8	26.9	34.6	156	78
Topeka, Kansas	19.7	18.4	107	19.2	23.1	19.3	18.2	83	1/
Kansas City, Kan.	12.0	7.5	160	13.1	17.3	13.6	5.4	76	1/
Louisville, Ky.	87.6	98.9	89	92.6	91.5	92.4	94.4	101	98
Shreveport, La. (Caddo Parish Part)	29.7	32.2	92	31.4	38.3	31.7	33.9	82	1/
Baton Rouge, La.	14.4	22.0	65	20.6	9.6	19.6	58.1	215	1/
New Orleans, La.	16.4	24.0	68	22.5	22.0	22.4	19.9	102	113
Baltimore, Md.	69.4	64.5	108	67.0	73.9	68.0	71.2	91	96
New Bedford, Mass.	32.2	51.0	63	33.7	35.9	34.4	79.8	94	1/
Springfield, Mass.	67.3	76.1	88	72.9	69.8	71.5	96.2	104	74
Cambridge, Mass.	29.0	29.2	99	28.4	29.9	29.1	n.r.	95	n.c.
Boston, Mass.	31.6	43.5	72	31.7	43.3	43.1	39.3	73	110
Worcester, Mass.	42.7	46.6	92	43.4	48.8	44.7	46.3	89	1/
Flint, Mich.	37.2	57.0	65	36.5	68.9	38.0	7.6	53	1/
Lansing, Mich.	56.5	82.6	68	77.2	82.6	77.6	125.3	93	1/

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City	Ratios of Assessed Value to Sales Price								Total Residential as Percent of Commercial and Industrial [Col 6 ÷ Col 7]
	Lower Half of Assessed Value Classes	Upper Half of Assessed Value Classes	Lower Half as Percent of Upper Half [Col 1 ÷ Col 2]	Single Family Residential	Multi-Family Residential	Total Residential	Commercial and Industrial	Single Family as Percent of Multi-Family [Col 4 ÷ Col 5]	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Grand Rapids, Mich.	31.6	36.0	88	30.9	44.0	32.5	32.2	70	1/
Dearborn, Mich.	18.2	24.5	74	18.9	21.7	19.0	35.5	87	1/
Detroit, Mich.	35.8	47.9	75	39.2	40.8	39.4	52.1	96	76
Minneapolis, Minn.	9.1	11.8	77	9.7	11.1	10.0	10.6	87	94
St. Paul, Minn.	7.6	11.7	65	8.4	11.7	8.8	10.4	72	85
Duluth, Minn.	8.8	12.6	69	9.3	11.7	10.4	n.r.	79	n.c.
Jackson, Miss.	17.6	21.5	82	21.3	23.2	21.3	n.r.	92	n.c.
Kansas City, Mo. (Clay Co. Part)	21.2	29.5	72	25.6	36.3	26.1	n.r.	71	n.c.
Kansas City, Mo. (Jackson Co. Part)	23.1	32.8	70	26.0	29.8	26.4	28.5	87	93
St. Louis, Mo.	32.2	45.2	71	36.1	42.3	37.4	55.6	85	67
Omaha, Neb.	29.6	33.5	88	36.7	25.1	36.1	20.6	146	175
Lincoln, Neb.	27.7	28.8	96	31.6	29.8	31.4	12.1	106	1/
Newark, New Jersey	65.2	83.1	78	70.1	74.3	72.8	79.2	94	92
Jersey City, N.J.	32.3	54.5	59	28.2	36.5	32.6	67.9	77	48
Trenton, N.J.	1/	1/	1/	43.7	38.3	43.1	31.6	114	1/
Paterson, N.J.	66.2	76.2	87	73.4	67.8	71.0	71.6	108	1/
Elizabeth, N.J.	43.5	47.9	91	49.5	43.1	46.6	44.5	115	1/
Albuquerque, N.M.	14.9	13.6	109	15.2	17.5	15.4	12.6	87	122
Albany, N.Y.	47.4	54.0	88	45.6	62.6	50.7	n.r.	73	n.c.
Buffalo, N.Y.	63.5	73.4	87	61.8	79.6	67.8	132.4	77	1/
Rochester, N.Y.	36.3	41.3	88	39.4	38.9	39.3	35.7	101	1/
Niagara Falls, N.Y.	1/	1/	1/	22.9	25.8	23.4	16.9	89	1/
Utica, N.Y.	51.0	51.4	99	48.3	56.2	49.0	n.r.	86	n.c.
Syracuse, N.Y.	42.5	51.9	82	45.4	57.1	48.1	59.2	80	1/
Yonkers, N.Y.	39.4	45.6	86	46.5	61.0	47.8	35.8	76	1/
New York, N.Y.	37.5	59.4	63	44.0	52.1	47.7	58.4	84	82
Winston-Salem, N.C.	42.0	46.4	90	46.8	54.5	47.2	11.1	86	1/
Greensboro, N.C.	53.2	63.7	84	63.9	n.r.	n.r.	n.r.	n.c.	n.c.
Charlotte, N.C.	39.5	52.7	75	48.8	64.1	49.7	67.1	76	1/
Cleveland, Ohio	34.8	40.6	86	35.0	37.8	37.3	50.2	93	74
Columbus, Ohio	37.6	39.0	96	38.4	37.6	38.3	43.8	103	1/
Cincinnati, Ohio	34.4	48.7	71	44.1	52.8	45.5	56.2	84	1/

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City	Ratios of Assessed Value to Sales Price: Lower Half of Assessed Value Classes	Upper Half of Assessed Value Classes	Lower Half as Percent of Upper Half [Col 1 ÷ Col 2]	Single Family Residential	Multi-Family Residential	Total Residential	Commercial and Industrial	Single Family as Percent of Multi-Family [Col 4 ÷ Col 5]	Total Residential as Percent of Commercial and Industrial [Col 6 ÷ Col 7]
Toledo, Ohio	36.1	38.8	93	36.5	31.4	36.3	48.5	116	1/
Youngstown, Ohio	42.9	63.9	67	49.4	45.9	48.7	55.2	108	1/
Dayton, Ohio	35.3	40.1	88	36.8	36.5	36.7	n.r.	101	n.c.
Canton, Ohio	43.8	42.1	104	41.5	46.4	42.9	53.0	89	1/
Akron, Ohio	38.9	39.7	98	40.0	43.7	40.3	30.4	92	1/
Oklahoma City, Okla.	14.9	21.2	70	21.4	23.1	21.5	13.8	93	156
Tulsa, Okla.	21.3	25.5	83	25.2	24.2	25.2	14.1	104	179
Portland, Ore. (Multnomah Co. Part)	20.0	21.8	92	21.4	22.2	21.5	19.1	96	113
Pittsburgh, Pa.	36.0	46.7	77	41.0	49.6	43.4	45.1	83	96
Erie, Pa.	30.2	28.9	96	27.9	37.3	29.2	27.1	75	1/
Scranton, Pa.	1/	1/	1/	14.5	36.8	18.6	n.r.	39	n.c.
Allentown, Pa.	28.8	37.6	77	28.1	28.5	28.2	78.7	99	1/
Philadelphia, Pa.	60.0	57.1	105	58.5	63.5	59.3	52.9	92	112
Providence, R.I.	66.5	65.5	102	65.4	70.0	67.0	71.5	93	94
Chattanooga, Tenn.	39.3	47.8	82	36.6	49.4	39.2	64.3	74	1/
Knoxville, Tenn.	23.4	27.9	84	26.4	19.8	26.0	26.8	133	1/
Memphis, Tenn.	41.6	47.7	87	46.7	46.9	46.8	46.8	100	1/
Nashville-Davidson, Tenn.	28.3	34.9	81	33.4	32.1	33.3	23.7	104	1/
Salt Lake City, Utah	14.3	17.0	84	17.0	15.2	16.7	6.0	112	1/
Newport News, Va.	33.4	36.7	91	34.9	n.r.	n.r.	n.r.	n.c.	n.c.
Norfolk, Va.	34.9	45.8	76	37.8	49.7	39.3	61.6	76	1
Portsmouth, Va.	43.8	63.9	69	63.2	n.r.	n.r.	n.r.	n.c.	n.c.
Richmond, Va.	48.0	90.4	53	84.6	116.4	87.9	n.r.	73	n.c.
Seattle, Wash.	14.8	18.0	82	15.7	16.9	15.9	21.8	93	74
Tacoma, Wash.	13.8	18.1	76	16.5	21.7	17.0	10.5	76	1/
Spokane, Wash.	21.6	26.5	81	23.3	27.7	23.5	20.7	84	114
Madison, Wisc.	41.2	54.9	75	52.8	37.7	51.0	56.8	140	1/
Milwaukee, Wisc.	49.7	54.0	92	52.6	52.8	52.6	41.0	100	128

n.r. Not reported
n.c. Not computed
[1]Not computed due to insufficient number of properties in sample (less than 5).
Source: ACIR staff calculations based on U.S. Bureau of the Census, unpublished property tax survey data from the *1967 Census of Governments*.

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Appendix B

Public Opinion and Taxes

Research Findings Conducted
by
Caravan Surveys, Incorporated,
a division of
Opinion Research Corporation,
Princeton, New Jersey

Foreward

This appendix presents the findings of a personal interview research survey conducted among 2,195 men and women, 18 years of age or over, living in private households in the continental United States.

Interviewing for this survey was completed during the period March 15 through April 8, 1972. All interviews were conducted in the homes of the respondents.

The most advanced probability sampling techniques were used in the design and execution of the sample plan and the results, therefore, may be projected to the total U.S. population of men and women 18 years of age or over.

Only one interview was taken per household, regardless of the number of people 18 years of age or over in the household. Weights were introduced into the tabulations to ensure proper representation in the sample.

Introduction to Detailed Findings

The following definitions are provided for some of the sidebreaks by which the data are analyzed. Other sidebreaks are self-explanatory.

Occupation refers to the occupation of the chief wage earner in the household.

City Size

Non-Metro—Rural areas are under 2,500 in population and are not included in a metropolitan area.

Non-Metro—Urban areas are places with 2,500-50,000 population which are not within a metropolitan area.

Metro—50,000-999,999, is a place in a standard metropolitan statistical area with a population between 50,000 and 999,999.

Metro—1,000,000 and over refers to places in a standard metropolitan statistical area with a population of 1,000,000 or over.

Population figures are taken from the 1970 Bureau of the Census. Note that for all places in a metropolitan area the criterion of size refers to the population of the metropolitan area.

Geographic Regions

The Northeast includes Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, and Pennsylvania.

The North Central States are Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, and Kansas.

The South is comprised of Delaware, Maryland, D.C., Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma and Texas.

The West includes Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, Washington, Oregon, California.

Income is the total family income in 1971, before taxes.

The Tables

The tables read across. All figures in the body of the tables are percentages. Where percentages add to more than 100, it is because of multiple answers. Some of the percentage distributions are based on small numbers of interviews. The reader is urged to interpret them with caution.

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Table B-1

Suppose the Federal Government must raise taxes substantially, which of these do you think would be the best way to do it?

1. Collect a value added tax (vat), a form of national sales tax on things other than food and similar necessities
2. Raise individual income tax rates
3. Raise Money by reducing special tax treatment for capital gains and cutting tax deduction allowances for charitable contributions, state and local taxes, medical expenses, etc.
4. Don't know

	1.	2.	3.	4.
Total U.S. Public	**34**	**10**	**40**	**16**
Men	34	12	40	14
Women	34	7	40	19
18-29 Years of Age	35	10	45	10
30-39	33	12	41	14
4029	33	8	45	14
50-59	36	10	36	18
60 Years or over	31	10	32	27
Less than High School Complete	29	9	37	25
High School Complete	38	8	43	11
Some College	36	13	42	9
Professional	41	12	38	9
Managerial	36	9	39	16
Clerical, Sales	36	6	47	11
Craftsman, Foreman	33	9	44	14
Other Manual, Service	30	10	41	19
Farmer, Farm Laborer	34	12	37	17
Non-Metro - Rural	31	9	39	25
Urban	39	7	37	17
Metro—50,000-999,999	36	10	42	12
1,000,000 or over	31	11	40	18
Northeast	28	12	41	19
North Central	36	11	39	14
South	33	8	38	21
West	40	7	44	9
Under $5,000 Family Income	30	9	37	24
$5,000-$6,999	32	10	41	17
$7,000-$9,999	32	9	40	19
$10,000-$14,999	36	10	43	11
$15,000 or Over	38	9	43	10
White	34	9	41	16
Nonwhite	28	11	38	23

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No Children in Household	33	9	38	20
With Children Under 18	35	10	42	13
With Teenagers 12-17	34	9	42	15
Own Home	36	9	40	15
Rent Home	31	11	39	19

Table B-2

Which do you think would be the next best way?

1. Collect a value added tax (vat), a form of National Sales Tax on things other than Food and Similar Necessities
2. Raise Individual Income Tax Rates
3. Raise Money by Reducing Special Tax Treatment for Capital Gains and cutting Tax Deduction Allowances for Charitable Contributions, State and Local Taxes, Medical Expenses, etc.
4. Don't Know

	1.	2.	3.	4.
Total U.S. Public	**29**	**18**	**27**	**26**
Men	30	19	28	23
Women	28	16	27	29
18-29 Years of Age	36	20	29	15
30-39	27	21	32	20
40-49	35	12	27	26
50-59	24	16	28	32
60 Years or Over	20	19	21	40
Less than High School Complete	26	16	21	37
High School Complete	31	18	32	19
Some College	31	21	32	16
Professional	28	23	33	16
Managerial	27	19	28	26
Clerical, Sales	31	16	31	22
Craftsman, Foreman	31	15	29	25
Other Manual, Service	30	16	27	27
Farmer, Farm Laborer	38	18	20	24
Non-Metro - Rural	33	11	25	31
Urban	26	16	29	29
Metro—50,000-999,999	30	20	29	21
1,000,000 or Over	28	18	26	28
Northeast	28	19	24	29
North Central	29	20	29	22
South	27	16	25	32
West	32	16	34	18
Under $5,000 Family Income	26	17	22	35
$5,000-$6,999	30	20	22	28
$7,000-$9,999	26	18	26	30
$10,000-$14,999	31	16	33	20
$15,000 or Over	35	18	31	16

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White	29	18	28	25
Nonwhite	23	13	26	38
No Children in Household	27	17	25	31
With Children under 18	31	18	30	21
With Teenagers 12-17	31	17	29	23
Own Home	29	17	28	26
Rent Home	28	19	26	27

Table B-3

Suppose your State Government must raise taxes substantially, which of these do you think would be the best way to do it—State Income Tax, State Sales Tax, or State Property Tax?

1. State Income Tax
2. State Sales Tax
3. State Property Tax
4. Other
5. Don't Know

	1.	2.	3.	4.	5.
Total U.S. Public	**25**	**46**	**14**	**5**	**10**
Men	29	43	14	6	8
Women	22	48	13	4	13
18-29 Years of Age	29	38	23	2	8
30-39	26	47	14	4	9
40-49	25	49	10	6	10
50-59	20	50	11	7	12
60 Years or Over	25	47	8	6	14
Less than High School Complete	24	44	13	5	14
High School Complete	25	49	13	4	9
Some College	27	45	16	5	7
Professional	27	48	11	7	7
Managerial	25	47	17	3	8
Clerical, Sales	22	47	17	5	9
Craftsman, Foreman	24	48	12	6	10
Other Manual, Service	26	43	14	4	13
Farmer, Farm Laborer	34	37	21	1	7
Non-Metro - Rural	25	45	15	3	12
Urban	22	50	10	5	13
Metro—50,000-999,999	26	49	12	5	8
1,000,000 or Over	26	42	16	5	11
Northeast	28	38	16	5	13
North Central	27	50	8	5	10
South	23	43	18	5	11
West	22	54	13	4	7

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Under $5,000 Family Income	26	40	16	6	12
$5,000-$6,999	21	46	18	3	12
$7,000-$9,999	27	46	12	5	10
$10,000-$14,999	26	49	11	5	9
$15,000 or Over	23	51	13	5	8
White	25	46	14	5	10
Nonwhite	24	42	16	4	14
No Children in Household	24	44	15	5	12
With Children under 18	26	48	13	4	9
With Teenagers 12-17	25	49	11	5	10
Own Home	25	51	9	5	10
Rent Home	25	36	24	4	11

Table B-4

Here is a list of the major types of Taxes in the country today. Which do you think is fairest?

1. Federal Income Tax
2. State Income Tax
3. State Sales Tax
4. Local Property tax
5. Don't Know

	1.	2.	3.	4.	5.
Total U.S. Public	**36**	**11**	**33**	**7**	**13**
Men	40	11	32	7	10
Women	32	11	34	8	15
18-29 Years of Age	39	13	30	8	10
30-39	31	13	36	9	11
40-49	43	10	30	5	12
50-59	33	11	39	8	9
60 Years or Over	31	8	34	7	20
Less than High School Complete	31	12	31	8	18
High School Complete	41	10	33	7	9
Some College	37	9	37	8	9
Professional	45	9	31	6	9
Managerial	37	11	34	9	9
Clerical, Sales	35	11	36	7	11
Craftsman, Foreman	37	11	35	6	11
Other Manual, Service	34	13	31	7	15
Farmer, Farm Laborer	38	10	30	10	12
Non-Metro—Rural	19	11	33	15	22
Urban	31	14	35	7	13
Metro—50,000-999,999	40	11	35	6	8
1,000,000 or Over	39	10	30	7	14

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Northeast	43	10	23	9	15
North Central	38	13	35	4	10
South	29	9	37	10	15
West	34	13	37	6	10
Under $5,000 Family Income	33	12	30	9	16
$5,000-$6,999	37	11	32	7	13
$7,000-$9,999	36	14	30	9	11
$10,000-$14,999	34	10	38	6	12
$15,000 or Over	40	8	36	7	9
White	35	11	35	8	11
Nonwhite	37	9	23	7	24
No Children in Household	34	10	33	8	15
With Children Under 18	37	11	33	8	11
With Teenagers 12-17	37	11	34	7	11
Own Home	34	10	36	8	12
Rent Home	39	13	27	8	13

Table B-5

Which do you think is the Worst Tax, that is, the Least Fair?

1. Federal Income Tax
2. State Income Tax
3. State Sales Tax
4. Local Property Tax
5. Don't Know

	1.	2.	3.	4.	5.
Total U.S. Public	**19**	**13**	**13**	**45**	**11**
Men	19	11	15	44	11
Women	18	14	12	45	12
18-29 Years of Age	22	13	15	41	9
30-39	22	16	15	40	10
40-49	19	12	12	46	11
50-59	17	14	14	45	11
60 Years or Over	13	9	10	51	17
Less Than High School Complete	17	11	13	43	16
High School Complete	21	14	12	46	8
Some College	19	13	17	45	8
Professional	13	16	17	48	9
Managerial	25	12	16	41	6
Clerical, Sales	23	13	13	42	9
Craftsman, Foreman	21	15	15	41	9
Other Manual, Service	20	13	11	43	14
Farmer, Farm Laborer	16	13	5	51	16

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Non-Metro—Rural	26	9	6	41	19
Urban	25	7	15	41	12
Metro—50,000-999,999	18	15	14	47	7
1,000,000 or Over	15	13	14	45	13
Northeast	13	16	20	38	13
North Central	16	11	9	56	10
South	26	12	13	34	16
West	18	12	11	54	5
Under $5,000 Family Income	16	9	13	48	15
$5,000-$6,999	18	11	14	44	13
$7,000-$9,999	21	15	13	41	12
$10,000-$14,999	22	15	14	41	8
$15,000 or Over	19	13	14	46	8
White	20	12	13	45	11
Nonwhite	12	16	16	39	18
No Children in Household	18	11	12	46	13
With Children under 18	19	14	15	43	10
With Teenagers 12-17	19	15	13	45	10
Own Home	19	12	12	47	11
Rent Home	19	14	15	40	12

Table B-6

From which level of Government do you feel you get the most for your money—Federal, State or Local?

1. Federal
2. State
3. Local
4. Don't know

	1.	2.	3.	4.
Total U.S. Public	**39**	**18**	**26**	**17**
Men	43	17	28	12
Women	37	18	24	21
18-29 Years of Age	40	23	24	13
30-39	41	19	23	17
40-49	39	15	30	16
50-59	35	16	32	17
60 Years or Over	41	14	22	23
Less Than High School Complete	38	17	23	22
High School Complete	41	19	27	13
Some College	38	19	30	13
Professional	43	19	25	13
Managerial	34	22	32	12

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Clerical, Sales	41	18	26	15
Craftsman, Foreman	37	21	26	16
Other Manual, Service	41	15	25	19
Farmer, Farm Laborer	40	14	27	19
Non-Metro—Rural	33	20	26	21
Urban	37	20	27	16
Metro—50,000-999,999	37	20	29	14
1,000,000 or Over	44	15	23	18
Northeast	43	12	24	21
North Central	38	21	29	12
South	36	19	27	18
West	42	21	21	16
Under $5,000 Family Income	42	18	19	21
$5,000-$6,999	48	17	19	16
$7,000-$9,999	37	19	29	15
$10,000-$14,999	36	16	31	17
$15,000 or Over	39	20	29	12
White	38	19	26	17
Nonwhite	52	10	20	18
No Children in Household	39	17	25	19
With Children Under 18	40	19	26	15
With Teenagers 12-17	38	18	28	16
Own Home	38	18	28	16
Rent Home	43	19	20	18

Table B-7

Here are three statements about taxes. Which of the statements agrees most with your own thinking?

1. The Federal Government should start a Value Added Tax (A form of National Sales Tax) and use the money to help reduce Local Property Taxes.
2. The Federal Government should not start a Value Added Tax (A form of National Sales Tax) but should raise individual income taxes to help reduce Local Property Taxes.
3. The Federal Government should take neither of these actions to help reduce Local Property Taxes.
4. Don't Know

	1.	2.	3.	4.
Total U.S. Public	**32**	**14**	**44**	**10**
Men	35	17	40	8
Women	29	11	48	12
18-29 Years of Age	32	13	48	7
30-39	30	14	47	9
40-49	32	11	46	11
50-59	28	16	47	9
60 Years or Over	34	15	34	17

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Less Than High School Complete	31	15	39	15
High School Complete	32	12	48	8
Some College	32	15	48	5
Professional	29	16	48	7
Managerial	30	13	52	5
Clerical, Sales	35	12	44	9
Craftsman, Foreman	31	11	48	10
Other Manual, Service	32	13	44	11
Farmer, Farm Laborer	38	5	37	20
Non-Metro—Rural	25	11	47	17
Urban	33	10	48	9
Metro—50,000-999,999	33	14	47	6
1,000,000 or over	31	16	40	13
Northeast	30	17	39	14
North Central	35	13	44	8
South	28	12	49	11
West	35	14	43	8
Under $5,000 Family Income	32	15	39	14
$5,000-$6,999	29	17	42	12
$7,000-$9,999	29	14	47	10
$10,000-$14,999	36	12	46	6
$15,000 or over	31	14	48	7
White	32	14	45	9
Non white	26	17	38	19
No Children in Household	33	13	42	12
With Children Under 18	30	14	47	9
With Teenagers 12-17	30	13	46	11
Own Home	33	14	44	9
Rent Home	29	15	44	12

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Appendix C

State Studies And Bibliography on Property Tax Incidence

State Studies

Most State tax studies have made certain specified assumptions concerning the incidence of the property tax and have allocated the final burden of the tax according to these assumptions. These studies have generally followed the lead set by Richard A. Musgrave in 1951 in assuming that the tax on owner-occupied residences is paid by the current owner and that the tax on rented dwellings is shifted to the tenant.[1] Other assumptions are made for the other components of the tax. While the home value, rental cost, and other data for each income class vary slightly from study to study, the shifting (or non-shifting) assumptions are the crucial part of the analyses.

The following selective survey of State tax studies highlights their different approaches to property tax incidence. Where new data were collected especially for the particular study, the results are cited in detail. Otherwise, the shifting assumptions and data sources are summarized briefly.

Michigan (1958)[2]

Musgrave based his Michigan study on Census Bureau income data, consumer expenditure data from a *Life* magazine survey, data on the value of owner-occupied homes from the University of Michigan Survey Research Center, and data on Business Activities Tax collections. He assumed that property taxes on owner-occupied houses are not shifted. Seventy-five percent of property taxes on local industries, including rental housing, was assumed to be shifted to consumers, with the balance falling on the owners of land and not shifting.

Wisconsin (1959)[3]

The assumptions of the Wisconsin study are much the same as those made by Musgrave. The ultimate burden of the tax on owner-occupied residences is assumed to be borne by those who initially pay the tax. Property taxes applied to land used in businesses other than farming, including rental housing, are assumed to fall entirely on the owner of the land. Business cost taxes, including property taxes on rental housing and other enterprises, are assumed to be shifted forward to the consumer. The income and value component distributions required for the analysis come from Wisconsin and Federal income tax statistics and from data of the University of Michigan Survey Research Center.

California (1964)[4]

The California Assembly Interim Committee on Revenue and Taxation relied primarily on earlier studies of property tax incidence, including those in Michigan and Wisconsin. However, the Committee also reported the results of a survey of several hundred householders in eastern Los Angeles County in 1959. The reported relation between income and

Table C-1
Relation of Household Income to Property Tax For Homeowners, Los Angeles County, 1959

Annual Household Income	Property Tax Payment as Percentage of Income
$ 3,000	6.95
4,000	6.00
5,000	5.35
6,000	4.70
7,000	4.15
8,000	3.95
9,000	3.80
10,000	3.60
11,000	3.10
12,000	3.20
13,000	3.26
14,000	3.10
15,000	3.03
16,000	2.90
17,000	2.86

Source: California Assembly, *op. cit.*, p. 29.

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Table C-2

Relation of Household Income to Property Tax For Married Homeowners, Minnesota, 1968

Annual Minnesota Gross Income	Property Tax Payment as Percentage of Income		
	Minnesota	Minneapolis	St. Paul
$ 2,000	6.2	10.2	7.1
4,000	4.1	6.1	4.3
6,000	3.2	4.5	3.2
8,000	2.7	3.6	2.6
10,000	2.3	3.0	2.2
12,000	2.1	2.6	1.9
14,000	1.9	2.4	1.7
16,000	1.8	2.1	1.5
18,000	1.7	1.9	1.4
20,000	1.6	1.8	1.3

Source: Hatfield, *op cit.*, Appendix A.

property tax payments, of course, still assumes that the tax on owner-occupied dwellings is not capitalized or shifted to wealth owners in general.

Minnesota (1970)[5]

A special study of a sample of married income-taxpayers who owned their own home and did not claim the senior citizens property tax credit was conducted for the Minnesota Property Tax Study. For each Minnesota county and large city, 1968 gross income was compared with homestead property tax payments. The portion of income going for property taxes was assumed to decline exponentially with income, and this relation was estimated by a log-linear regression. The results for the State as a whole and for its two largest cities are shown in Table C-2. In addition to the non-shifting assumption, these numbers are affected to some unknown extent by the various items of income excluded from State gross income.

Connecticut (1970)[6]

The Connecticut tax study is of particular interest because the allocation of the property tax among income groups was made under three alternative assumptions. The tax on single-family residences was assumed to be borne entirely by the owner; it was distributed among families in proportion to the University of Michigan Survey Research Center data on the value of owner-occupied homes in the Northeast. The tax on multi-family properties was allocated by each of three assumptions—(1) all the tax is borne by the tenant, (2) all the tax is borne by the landlord, and (c) one-third of the tax is borne by the landlord and two-thirds by the tenant. In cases where the tax was assumed to be borne by the tenant, it was allocated on the basis of the Survey Research Center distribution of rental payments. The tax borne by incorporated landlords (half of the tax on multi-family dwellings) was allocated according to the Internal Revenue Service distribution of dividends received. The tax borne by unincorporated landlords was allocated according to the IRS distribution of rental income.

New Jersey (1972)[7]

The New Jersey Tax Policy Committee published estimates of effective property tax rates in New Jersey by income class. These figures were derived by the usual process of making assumptions about the tax's incidence and distributing tax payments in accord with some proxy variable.[8] It was assumed that property taxes on owner-occupied residences fall solely on homeowners. The net burden was allocated among income classes according to reports from households on property taxes owed on owner-occupied housing. Property taxes on rental residences were assumed to be shifted entirely to tenants and were allocated according to rental outlays.

Table C-3

Relation of Income to Property Tax For Homeowners, Guelph, Ontario, 1968

Gross Income Class	Property Tax Payment as Percentage of Income
$ 3,000- 3,500	9
3,500- 4,000	8
4,000- 4,500	7
4,500- 5,000	6
5,000- 5,500	6
5,500- 6,000	5
6,000- 6,500	5
6,500- 7,000	5
7,000- 7,500	5
7,500- 8,000	4
8,000- 8,500	4
8,500- 9,000	4
9,500- 10,000	4
10,000-12,000	4
12,000-15,000	4
15,000-20,000	3
20,000-25,000	3
25,000-50,000	2

Source: Ontario, *op cit.*, p. 97.

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Taxes on businesses and farms were assumed shifted forward onto customers.

Ontario (1972)[9]

The Department of the Treasury of the Canadian Providence of Ontario, while designing a provincial property tax credit scheme, undertook a detailed study of the incidence of the property tax. The Ontario analysis matched the income and property taxes of over 11,000 taxfilers (i.e., homeowners) in the city of Guelph. Both gross income and property tax data pertained to 1968.

FOOTNOTES

[1]Richard A. Musgrave, *et al.*, "Distribution of Tax Payments by Income Groups," *National Tax Journal*, 4: 1-53 (Mar., 1951).

[2]Richard A. Musgrave and Darwin W. Daicoff, "Who Pays the Michigan Taxes," in *Michigan Tax Study Staff Papers* (Lansing: 1958).

[3]Harold W. Groves, Donald Knight, *et al.*, *Wisconsin's State and Local Tax Burden* (Madison: U. of Wis. Tax Study Comm., 1959).

[4]California Assembly Interim Committee on Revenue and Taxation, *Taxation of Property in California* (Sacramento: 1964).

[5]Rolland Hatfield, *Report to the Governor's Minnesota Property Tax Study* (St. Paul: State Planning Agency, 1970).

[6]A. Thomas Eapen and Ana Navarro Eapen, *Incidence of Taxes and Expenditures of Connecticut State and Local Governments, Fiscal Year 1967* (Hartford: State Revenue Task Force, 1970).

[7]New Jersey Tax Policy Committee, *Report, Part II, The Property Tax* (Trenton: 1972).

[8]Jeffrey M. Schaefer, unpublished manuscript prepared for the New Jersey Tax Policy Committee.

[9]Ontario Ministry of Treasury, Economics, and Intergovernmental Affairs, *Analysis of Income and Property Taxes in Guelph* (Toronto: October 1972).

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Appendix D

The Property Tax and Life-Cycle Income

In discussing the relationship of the property tax to income, some observers believe that it is inappropriate to look at a single year's cash income or Federal adjusted gross income (AGI). They say past income should also be considered. This stems from the life-cycle income hypothesis which holds that a person knows in advance that there will be some years in which he has little or no income (e.g. retirement years), that he does not want his consumption to fluctuate in the same way that his income does, and that therefore he refrains from spending all his income (i.e., he saves) in years in which his income is high to be able to consume more than his income in years in which it is low.

The life-cycle nature of expenditures and income raises the possibility that housing expenditures may be proportional to lifetime income. People do not generally change living accommodations every time their income changes and frequently remain in the same house after retirement. Statistics relating housing expenditures (or property taxes, which affect housing expenditures) to current income therefore show that low-income persons spend a larger proportion of their income on housing than higher-income persons, even if housing expenditures are proportional to lifetime income. The data for higher current-income groups include some persons in their peak earning years while the data for lower current-income groups include some people whose current income is considerably below their own peak. From this point of view, the property tax, to the extent that it raises the cost of housing, would be in a basic sense a proportional rather than a regressive tax.

As yet, empirical evidence on the relationship between lifetime income and housing expenditures does not provide a firm basis for policymaking. Conflicting results have been presented on this relationship.[1] More basic, however, is the fact that basing policy on the life-cycle approach does not allow for unforeseen changes in circumstances. Many persons whose past income was sufficient and who could have saved enough for today's needs were not sufficiently prescient to know how much they would need today. Part of the current property tax complaint lodged by the elderly stems from the failure to anticipate a long and sustained period of inflation. Inflation drives up the cost of public services and governments pass increased costs on to the homeowner in the form of higher property taxes.

Increased costs are also passed on in the form of higher State income taxes. Income taxes, however, affect mainly current wage-earners while the property tax increase also affects those who have committed themselves to a house in the distant past, and lack the means to increase current income. It should also be noted that the cost of public services rises faster than the general price level because of the labor-intensive nature of the public sector. Those who committed themselves to homeownership years ago could not have foreseen the increase in union activity in the public sector and its impact on governmental costs and taxes.

Even when the future is properly foreseen, the problem remains of the weakness of the human spirit. The prospect of immediate pleasures is frequently so great that a person cannot restrain himself from spending too much and from putting off the act of saving. "If I discount the future, then, when that future day becomes the present, I shall kick myself," says Joan Robinson. In a basic sense, the person who suffers in his retirement years because he did not save enough in his younger years is not the same person who did not save for his future. His goals, his attitudes, his beliefs, his values have all changed. And he does not have the capacity now to undo the past or to earn a sufficient income in the present. He is, at least in an economic sense, "a man with a fixed past and an empty future."

FOOTNOTES

[1]Frank de Leeuw, "The Demand for Housing," *Review of Economics and Statistics*, 53: 1-10 (February, 1971). Sherman Maisel, James Burnham and John Austin, "The Demand for Housing: A Comment," *Review of Economics and Statistics*, 53:410-13 (November, 1971). Henry Aaron, *Shelter and Subsidies: Who Benefits from Federal Housing Policies?* (Washington: The Brookings Institution, 1972). Chapter 2 of the latter work has an excellent explanation of the difficulties of obtaining accurate data for these studies.

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Appendix E

State Programs for Relieving Property Tax Overloads— The Circuit Breaker Approach

The tax-credit/tax-rebate technique for granting a partial real estate tax exemption to the low-income homeowner has been studied widely. The relevant literature has largely supported this approach. However, the majority of the States utilizing the technique have limited its coverage to their low-income elderly.

First introduced in Wisconsin in 1964 and later in Minnesota (1967), a number of States have since introduced the system. Moreover, a large number of the remaining States have shown considerable interest in its use. Some major reasons for this interest may be summarized as follows:

- States and local governments have become increasingly aware of property tax inequities and burdens on particular citizen groups.
- The optimum role of the property tax as a local source of revenue has come under increasing debate, especially in regard to the appropriate role of exemption policies.
- A strong interest in tax reform in general and in an equitable distribution of aggregate tax burdens among the various sectors of society in particular, has developed.
- State and local governments are becoming increasingly aware of the inequities of the existing methods used in granting partial or complete real estate tax exemptions to selected citizen groups.

Part I
The "Circuit-Breaker" Approach for Granting Property Tax Relief With Special Emphasis on Wisconsin and Minnesota

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In an attempt to review the experiences States have had with the circuit-breaker system visits were made to Wisconsin and Minnesota*. Discussions were held with a wide variety of public officials, including, elected officials, program administrators, State and local tax officials, political leaders and officials of aging commissions. Presented below are some results of these discussions.

Wisconsin

Wisconsin was the first to introduce the circuit-breaker. The States which have since introduced the system have followed, in large part, the basic ideas of the Wisconsin approach. Accordingly a brief presentation of the background in Wisconsin leading to the introduction of the system there, and later in other States, is appropriate.

A revenue survey commission in 1960 examined the State-local tax problem and expressed the view that a property tax relief program costing upwards

*Additional visits to Vermont and Maine are discussed in Part II of this Appendix.

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of $100 million should be initiated in Wisconsin and that a sales tax was the most logical means of financing it under the existing circumstances. It further stated that the relief program should be discriminating. The commission noted that while some property taxpayers might be overburdened, by no means all of them were. Similar observations had been made by a 1958 tax study committee.

Both tax studies noted that the property tax constitutes a heavy burden on housing, especially for those who are relatively rich in terms of housing assets but are income-poor. Both dealt critically with proposals for a general homestead exemption, noting that it would be relatively expensive and would provide relief to many whose property taxes were not an undue burden, but nothing at all for needy tenants.

The Wisconsin legislature took note of this advice and responded as follows:

1) Additional revenues, the result of a newly imposed selective sales tax, were destined to absorb half of the levies on merchants', manufacturers' and farmers' inventories.

2) General property tax relief was initiated, but only to communities with average full value rates in excess of 14 mills and in proportion to the excess.

3) Homestead relief was pinpointed by confining it to the aged (65 and over) with low incomes and extraordinary tax burdens. However this phase was not implemented until April 1964 when the State had a general fund surplus.

With this latter enactment the new era in granting partial real estate tax exemptions was begun—the circuit-breaker was born. Wisconsin was the parent—the State was to finance it, and low-income elderly homeowners and renters who were faced with inordinate residential real estate tax burdens were the recipients.

In a paper on the first year's experience and operation of the new Wisconsin program, the author recalled Sydney Smith's lively description of the career of the schoolboy, which was a relevant summary of the various considerations and rationale of those primarily responsible for the program's introduction in Wisconsin.[1] Smith told of the schoolboy who "whips his taxed top, who rides, as a youth, on a taxed horse with a taxed bridle along a taxed road, who dies at last, in a bed taxed 22 percent, after taking his last drop of medicine, taxed 7 percent, in a spoon taxed 15 percent; his virtues are handed down to posterity upon taxed marble, and he is then gathered to his fathers, to be taxed no more." It was noted that the new Wisconsin tax relief program provided a break in this life cycle—the circuit had been broken for the low income elderly in Wisconsin prior to their being gathered to this fathers to be taxed no more.

Passage of the Wisconsin program was substantially assisted by the recommendations of two previous tax studies by commissions which provided a large degree of objectivity, thereby removing some of the political gamesmanship usually associated with the introduction and passage of such programs. Moreover, passage was materially assisted by the presence of a general fund revenue surplus which provided funds for program financing without the political difficulties usually associated with tax increases necessary to finance new programs.

Given these factors, the program received support from all political parties, old-age groups and associations and the general public. Most officials with whom the program was recently discussed indicated that the most important reasons for program support were: the high level of real estate tax burdens generally, and those faced by the low-income elderly in particular; and, the rate of increase in real estate tax burdens in the State.

The Original Wisconsin Proposal

The original proposal (except for a similar bill that got nowhere in the legislature) would (a) pay 50 percent of the property tax above 5 percent of the total income of persons 65 years of age or older, up to a maximum homestead relief payment of $100 per year; and (b) pay identical relief to persons aged 65 and older who lived in rental housing, with 25 percent of the rent to be considered as equivalent to a property tax payment.

The relief was to be distributed directly to the taxpayer in the form of an offset against income taxes due or a direct refund when relief exceeded income tax liability. The bill as finally passed contained these original tenets, but was somewhat modified.

Stated simply, the bill that passed provided no relief if household income was more than $3,000, and limited the amount of tax or rent paid constituting taxes in computing relief to $300.00[2] The amount of relief granted was a function of the levels of income and tax burden. For those with household incomes below $2,000, taxes had to exceed 5 percent of income before they were considered excessive and for those having household incomes above $2,000, taxes had to exceed 20 percent of income before being deemed an excessive burden. After determination of that part of the tax burden considered excessive, 75 percent of the part considered excessive was remitted if household income was below $1,000 and 50 percent was remitted for those whose household incomes exceeded $1,000.

During the first year of operation (1965) $2,829,426 was granted to 30,714 beneficiaries for an average benefit of $59.56.

Along Comes Minnesota

Minnesota passed a senior citizens' income tax

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credit or tax rebate system for low-income elderly homeowners and renters in 1967. This program was part of the "Tax Reform and Relief Act of 1967."

Discussions with various Minnesota officials who were close to the developments surrounding passage of their program indicated the following: The program had broad support from the aged, from organizations representing the aged, and from the general public. A number of hearings were held throughout the State and over 30 bills were introduced in two consecutive legislative sessions. Although no political objections were leveled specifically at the relief program, substantial objections were made to other parts of the overall tax reform bill of which the relief program was only a part. Indeed, some suggested that the relief program along with other items was introduced, in part, to sweeten the entire tax reform package and assist in its passage. Moreover, the relief part of the tax reform bill obtained broad political and general support because of existing levels of real estate tax burdens and their rate of increase. Given these conditions, substantial and general support was forthcoming, with special concern for the tax burdens faced by the low-income elderly.

The 1967 Minnesota program was fashioned after the Wisconsin program. The income concept used (household income of claimant and his or her spouse when present in the household) was similar to the Wisconsin program. However, unlike the original Wisconsin law, Minnesota did not include income from other members of the household beyond claimant and spouse, and the household income ceiling was fixed at $3,500 compared to $3,000 in Wisconsin. Whereas 25 percent of rent was used in Wisconsin, 20 percent of annual rent was used as an in-lieu real estate tax for renters in Minnesota. The most significant difference in the two programs was in the method used in computing relief. Unlike the graduated rates used in Wisconsin to measure excessive tax burdens, coupled with the use of two percentages to calculate the actual amount of the excessive tax burden to be remitted, the Minnesota program relieved a prescribed percent of the tax burden. The percent of tax burden relieved varied inversely with the level of household income. Those percentages ranged from 75 percent of the tax burden for households with incomes from $0-$500, to 10 percent for those having incomes from $3,000 to $3,500.

Administration of the relief programs in both States was similar. Both use the individual income tax return as the vehicle on which to claim a tax credit. Direct refund payments are made in those cases where income taxes are not due. The data required to be submitted by renters and the administrative methods used are similar in both Wisconsin and Minnesota. Each State requires homeowners to attach copies of their real estate tax bills to their relief applications.

Data on the first year program costs and coverage for Minnesota indicates that 16,727 elderly homeowners and renters obtained benefits of $639,186, providing an average relief of $38.21.

Changes Made to Original Programs

Both Wisconsin and Minnesota have made extensive changes in their programs. Only the major program changes are presented below.

Wisconsin

Wisconsin has made a number of changes during the last several years to increase both program coverage and benefits. Successive changes were made raising the income ceiling from $3,000 to $5,000, by increasing the maximum tax used in computing relief from $300 to $500. Household income was redefined to exclude income of household members other than the claimant and his or her spouse, when present. Also removed from the income base was the prior year's homestead relief payments. The age limit has been reduced from 65 to 62 (60 for totally and permanently disabled). The present percentages of excessive tax burdens that are relieved are 75 percent for those with household incomes below $1,000 and 60 percent for those having household incomes greater than $1,000. Another change removed the necessity of prorating taxes between residential and rental, farm or business use, providing the tax on the homestead is covered by a single real estate tax bill and does not include more than 40 acres of land (previously one acre). A number of other changes which have improved program administration and reduced the complexity of the program for claimants have been introduced. Provisions have been introduced permitting program claims to be filed during any time of the year and relief is now granted to those qualifying who reach age 62 any time during the year (previously claimants had to be 65 on January 1 of the year for which claims were filed).

Minnesota

Minnesota has also changed its program to increase both the number of households covered and to provide greater benefits. The household income limit was increased from $3,500 to $5,000. The maximum property tax or rent constituting property taxes used in computing relief has been increased from $300 in 1967 to $800 in 1971. Simplified provisions for computing credit or relief, along with provision of tables from which tax relief can be read directly, have been introduced. The household income definition has been changed to enable those receiving

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public assistance benefits to qualify for the program. Moreover, the filing deadline has been extended to permit claimants more time to file their claims.

Fiscal Effect of the Statutory Changes

The combined fiscal effect of the 1966 Wisconsin program revisions was to increase tax relief paid from slightly less than $2 million to over $5 million and to expand the number of claimants from about 35,000 to 70,000 in 1968. Tax relief paid remained stable during the first two years of program operation, but increased greatly in 1966 and thereafter because of the liberalization provisions introduced in 1966.

The 1966 program changes having the major fiscal and coverage impact were as follows. Most significant was the change involving the formula used for measuring excessive tax burdens in relation to household income. These changes reduced the 5 to 20 percent rates to 3 to 15 percent with an increased number of intermediate steps. The household income limit was increased from $3,000 to $3,500 by increasing the amount of tax or rent paid constituting taxes used in computing tax relief. Although a number of other program changes were introduced in the 1966 amendments, none was of major significance in terms of aggregate relief levels and program coverage.

The 1966 law change resulted in increasing average relief payments in 1966 by 45 percent while increasing the number of recipients by 90 percent over 1965. The effect of the 1966 law changes can be demonstrated by computing Claimant A's relief under the two programs. Assume Claimant A has a tax of $200 and an income of $1600; his relief under the previous law would be $60. Under the liberalized law, he would obtain $88 of relief.

Complete data covering more recent changes in the Wisconsin program are not yet available. However, these changes (a) increased the income limit to $5,000 by increasing to $500 the maximum tax that can be used to compute the amount of relief; (b) modified the set of graduated percentages to 5 percent, 10 percent and 14 percent; (c) reduced the age from 65 to 62 (60 for those totally and permanently disabled; and (d) made other minor changes which will increase both program coverage and costs. Estimated coverage will likely increase by 12,000 to 18,000, while program costs will increase, though at somewhat lower rates of increase than program coverage.

The program changes in the Minnesota law with major fiscal and coverage impact are as follows: (a) increasing the income limit from $3,500 to $5,000; (b) increasing the limit on the amount of property tax liability eligible for tax relief from $300 to $800; and (c) including as qualified claimants those who receive public assistance. Although complete data are not yet available, current information indicates that program coverage will increase from approximately 52,000 (1970) to an estimated coverage of 84,000 in 1971—a 62 percent increase largely as the result of program changes. Program costs will increase substantially, but at lower rates of increase than that for program coverage.

Impact on Households

Table 21 (pg. 45) presents the main features of the State circuit-breaker programs that were in effect by early 1973. Additional information relating to

Table E-1

Program Coverage and Benefits, Wisconsin and Minnesota Elderly Tax and Rent Relief Programs, 1965-1971

	WISCONSIN				MINNESOTA			
Year	No. of Claims	Tax Credits ($000)	Cash Refunds ($000)	Total Tax Relief ($000)	No. of Claims	Tax Credits ($000)	Tax Refunds ($000)	Total Tax Relief[1] ($000)
1965	30,714	26	1,803	·,829	—	—	—	—
1966	33,046	5	2,085	⁄,090	—	—	—	—
1967	58,716	100	5,102	5,202	16,727	NA	NA	639
1968	66,787	131	6,011	6,142	34,660	NA	NA	2,084
1969	67,401	93	6,036	6,129	43,901	776	2,001	2,777
1970	73,680	110	7,114	7,224	52,226	NA	NA	3,660
1971	70,404[2]	98	6,642	6,740	100,000	NA	NA	8,900

[1]Paid during following fiscal year.
[2]Wisconsin has received approximately 81,000 returns through May, 1972.
—NA-Data not available.

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Table E-2

Selected Data, By Income Class, Wisconsin Program, 1970-71

Household Income Class	Number of Claims	Average Household Income	Average Tax Before Relief	Average Tax After Relief	Percent Tax Burden Relieved	Tax Burden Before Relief*	Tax Burden After Relief*
$ 0- 499	493	$ 270	$311	$134	57%	NC	50%
500- 999	4,511	817	242	91	62	30%	11
1,000-1,499	11,794	1,273	268	150	44	21	12
1,500-1,999	16,628	1,750	314	201	36	18	11
2,000-2,499	15,919	2,239	357	261	27	16	12
2,500-2,999	11,654	2,738	398	329	17	15	12
3,000-3,499	7,879	3,229	445	408	8	14	13
3,500-3,700	1,680	3,582	488	479	2	14	13
Total	**70,558**	**2,100**	**345**	**250**	**28**	**16**	**12**

*Tax burden is expressed as the percent of average household income allocated to pay taxes before and after the relief program. Property taxes include rent paid in lieu of taxes for renters.
NC-Not computed

amounts of relief at various property tax and income levels for some of the States with such relief programs are presented in tables E-6 through E-10.

With this brief review of the background of these two program, our next consideration is an analysis of their coverage, costs and impact. Table E-1 presents the relevant data for the Wisconsin program from fiscal 1965 to fiscal 1971 and for the Minnesota program for calendar years 1967 to 1971.

As indicated in Table E-1, the Wisconsin program has reached a larger number of households and program costs have been greater. However, the number of current-year claims now being processed in each State appear to be approximately equal. It should be noted that these aggregate data do not reveal significant aspects of each of these programs. Tables E-2 and E-3 provide a more detailed analysis with respect to their impact upon those households covered.

Data presented in Tables E-2 and E-3 indicate that incomes of the elderly in both States are similar, while real estate tax burdens paid by the elderly in Wisconsin are nearly twice those of Minnesota. Note also the high degree of regressivity of the real estate tax before relief *(Column 7 in each table)*. However, the relief programs in both States have essentially made the real estate tax a proportional tax for those covered by them *(Column 8)*.

While the Wisconsin program relieved an average

Table E-3

Selected Data, by Income Class, Minnesota Program, 1970

Household Income Class	Number of Claims	Average Household Income	Average Tax Before Relief	Average Tax After Relief	Percent Tax Burden Relieved	Tax Burden Before Relief*	Tax Burden After Relief*
$ 0- 499	456	$ 107	$176	$ 48	73%	NC	45%
500- 999	4,075	813	142	44	69	17%	5
1,000-1,499	8,532	1,274	159	81	49	12	6
1,500-1,999	10,133	1,761	180	108	40	10	6
2,000-2,499	9,204	2,249	196	138	30	9	6
2,500-2,999	7,116	2,751	208	167	20	8	6
3,000-3,499	4,385	3,232	224	202	10	7	6
Total	**43,901**	**1,971**	**185**	**121**	**35**	**9**	**6**

*Tax burden is expressed as the percent of average household income allocated to pay taxes before and after the relief program. Property taxes include rent paid in lieu of taxes for renters.
NC-Not computed

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of 28 percent of the tax burden overall, the Minnesota program reduced the burden by 35 percent. Furthermore, 16 percent of average household income was required to pay these tax burdens in Wisconsin. In Minnesota only 9 percent of average household incomes was allocated to payment of real estate taxes before relief. The percentages of income needed to pay real estate taxes after relief were 12 percent in Wisconsin and 6 percent in Minnesota *(Column 8, Tables E-2 and E-3)*.

Table E-4

Comparative Tax Burdens Paid by Program Recipients, Wisconsin and Minnesota, Before and After Tax Relief

Household Income Class	Percent of Wisconsin Before Relief	Minnesota Average Tax Burden is Average Tax Burden After Relief
$ 0- 499	57%	36%
500- 999	59	48
1,000-1,499	59	54
1,500-1,999	57	54
2,000-2,499	55	53
2,500-2,999	52	51
3,000-3,499	50	50

Source: Tables E-2 and E-3

The real estate tax relief program for the elderly utilized by Wisconsin and Minnesota theoretically should provide assistance to two groups of people: those who are indeed impoverished, and those who have substantial assets in the form of residential property, but have low household incomes from which to pay property taxes. Data presented in the next section indicate the dominant place of the impoverished among the relief recipients in both States.

Characteristics of Program Recipients' Income

Data related to the 1966 Wisconsin program indicate the following: Over 93 percent of the program recipients had household income below $3,000, with 62.5 percent below $2,000 and 15.4 percent below $1,000.[3]

Adjusted gross income accounted for only 32.5 percent of household income. The major sources of these incomes were, in order of importance, interest, rent and wages. Income sources not a part of adjusted gross income accounted for 67.5 percent of household income. These nontaxable income sources in order of importance were, social security (54.0 percent), tax relief payments (4.5 percent), veteran's disability payments (2.4 percent), railroad retirement (2.3 percent) and interest on U.S. securities (1.3 percent). All other pensions and annuities accounted for only 3 percent of the nontaxable income sources.

Data covering the 1969 Minnesota program indicate the following: 90 percent of the program recipients had household income below $3,000, with 52.8 percent below $2,000 and 10.3 percent below $1,000. Taxable income accounted for 31 percent of household income. The major sources of taxacle income in order of importance were: dividends and interest, wages, other income sources, rent, business and farm income. Nontaxable income sources in order of their importance were social security (55 percent), veteran's pension (5.5 percent), other pensions (4 percent), railroad retirement (3 percent), with all other sources of only minor importance.

Comparison of the components of program recipients income between taxable and nontaxable as well as the relative importance of each income source in each of these two States are very similar. Moreover, there is a striking similarity in the distribution of program recipients' household incomes in both States.

In addition to income components and levels of those under the various relief programs, other income-related issues and questions are often raised. Some of these are as follows: (a) what is low income?; (b) what level of income should be used as the income limit above which the elderly or nonelderly (if the program covers all low income) would not qualify for program benefits?; (c) what is the appropriate role of asset tests?; (d) what is an adequate income measure to use?; and (e) what time period should an income concept cover? These questions and issues are listed as illustrative only and no attempt is made to be all inclusive, nor will we attempt to provide answers to them, specifically. Appropriate answers will depend to a large degree upon the area and State considering the program as well as the fiscal institutional setting with respect to which the relief programs are considered.

The most basic consideration, however, underlying all these income-related issues, one which should always be borne in mind, is that the use of the income concept in the first instance is to achieve one purpose—a measure of the ability to pay real estate taxes. Given this important objective, the income concept should be one which covers all income sources. Thus, it necessarily will include income not presently a part of income definitions used for Federal, State and local individual income tax purposes.

What is the appropriate role of asset tests for inclusion in these relief programs? Most States do not make use of asset tests, due largely to their recog-

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nition of the added administrative difficulties associated with their use. Rather, an alternative to an asset test is used, namely, provision of a limit on the amount of relief that any one claimant may receive, coupled with audit programs. As a practical matter, these devices can be made to work effectively without the undue administrative problems introduced when asset tests are provided.

However, if States extend their program coverage to all low income (removing the present age limits) additional considerations regarding the adequacy of the "annual" household income concepts are introduced. The problem of income timing and averaging, especially for farmers and small businessmen would present itself. This problem would be similar in nature to that faced by the various negative income tax proposals, The introduction of income averaging procedures coupled with limitations placed upon the amount of relief granted and audit programs could help in reducing or removing this problem.

In addition to these income issues, other important and related policy questions are often raised regarding those most appropriate for program coverage. Important among these are questions with respect to the program coverage provisions for homeowners versus renters.

Homeowners versus Renters

Seven States—Wisconsin, Minnesota, Vermont, Colorado, Maine, West Virginia and Illinois—explicitly extend their real estate tax relief programs to renters. Each of these States measures the amount of in-lieu real estate tax payments of renters by using a percentage of annual rental payments for occupancy and/or shelter rent only. These percentages range from 10 to 30 percent.

The actual amount of the real estate tax component of rent is difficult to determine. Questions regarding the incidence of the property tax are often raised. The difficulty in measuring the degree of shifting real estate taxes forward from the landlord to the tenant introduces the many complexities involved in attempts to measure the incidence of real estate taxes.

There are essentially two basic approaches by which these specific rental factors representing in-lieu real estate tax payments of renters can be made. First, results from any attempt to estimate the incidence of the tax upon renters can be used as a basis upon which rental factors can be determined. Second, once the level of relief is determined in relation to household income before relief for homeowners, the percent of rent used for tenants may be set on the basis of horizontal equity between homeowners and renters. For example, if the tax relief provided the homeowner having an income of $1,000 is, say, 10 percent of income, or $100, a percent of annual rent that provides the renter with a $1,000 income, 10 percent of his income or $100 in relief could be established. This approach has been labeled the income method as distinguished from the tax-incidence or tax-shifting method.

The major problem with the tax-incidence method is the difficulty in measuring the actual tax burdens of renters. However, a number of criticisms may be presented against the income approach, although we have recommended its use on a number of occasions. Perhaps the most important criticism of the method relates to the fact that no direct attempt is made to measure actual real estate tax burdens borne by tenants.

Moreover, if actual tax burdens borne by tenants are, in fact, lower than for homeowners, the income method would likely relieve a higher percentage of the actual tax burden borne by renters and a correspondingly lower percentage of the tax burden borne by homeowners. It is likely, also, to provide higher rental factors for tenants than those established by use of the tax incidence method.

However, the income method has the practical virtue of simplicity. Use of the income method to establish annual rental factors for tenants can also be used to provide the following predetermined relief program policy implications as between homeowners and renters.

a) Rental factors can be developed that provide lower average relief for renters than that provided for homeowners at a given income level.

b) Rental factors can be developed that provide equal average relief for homeowners and renters at a given income level.

c) Rental factors can be developed that provide higher average relief for renters than that provided homeowners at a given income level.

The percentages of annual rent currently in use are not sufficiently high to provide the results as outlined in (b) above. Rather, current rental factors used provide relief results to homeowners vs. renters similar to that outlined in (a) above. For example, using 1966 data, the author and Kenneth Quindry presented evidence in a previously published paper, indicating that Wisconsin would have to increase its 25 percent factor used for tenants to 32.6 percent, to assure that renters' relief would be similar to homeowners' at similar levels of income ((b) above). More recent data (1970) on the average relief provided homeowners vs. renters are presented in Table E-5.

The lack of horizontal equity of the relief payments as between homeowners and tenants is apparent. Similar data for Minnesota shows that average relief payments there to homeowners are higher

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Table E-5

Selected Data, Wisconsin Program

Average Relief of Homeowners versus Renters, 1970

Household Income Class	Homeowners Average Income	Homeowners Average Relief	Renters Average Income	Renters Average Relief	Renters Relief as percent of Homeowners Relief	Average Relief As Percent of Average Income: Homeowners	Average Relief As Percent of Average Income: Renters
$ - 0	$ 0	$216	$ 0	$159	74%	NC	NC
1- 499	346	184	430	110	60	53	26
500- 999	816	162	819	102	63	20	20
1,000-1,499	1,272	130	1,281	69	53	10	5
1,500-1,999	1,751	122	1,744	70	57	7	4
2,000-2,4999	2,240	101	2,233	60	59	5	3
2,500-2,999	2,740	70	2,722	45	64	3	2
3,000-3,499	3,231	34	3,209	26	76	1	1
3,500-3,699	3,582	9	3,585	6	67	—	—
Total	**$2,127**	**$100**	**$1,914**	**$65**	**65%**	**5%**	**3%**

Source: Wisconsin Department of Revenue
NC—Not Computed

than those to tenants at similar income levels.

We should note that from a legal standpoint, the Wisconsin law is not tax relief but strictly relief. In *State Ex Rel. Harvey* v. *Morgan* (1966), 30 Wis. (2d) 1, the Wisconsin Supreme Court stated, "Basically and in fact this is a relief measure, enacted under the police power of the state. The act takes shelter, a major cost-of-living item, as a factor upon which relief is predicated. Important components of shelter cost are alternatively rent and property taxes." The court also stated that "this is in no way a property tax law" and "the relief granted is to the aged needy and is not property tax relief."

Thus, the question is not whether property taxes average 25 percent of rent, but whether or not using the 25 percent figure accurately reflects the need of renters versus homeowners. The statistics from the 1970 Wisconsin returns *(Table E-5)* clearly indicate that homeowners receive more relief than renters, given the same income level.

Furthermore, it can be easily established that the annual cost to the elderly renter for housing is greater than that of the elderly homeowner in the major Wisconsin cities. *(See data published by the U.S. Department of Labor, Bureau of Labor Statistics in 3 Budgets for a Retired Couple in Urban Areas of the U.S.).* Data from the same publication indicate similar results for urban areas in Minnesota.

Therefore, elderly renters apparently face higher total shelter costs than elderly homeowners, while the net worth of the homeowner would generally be higher than that of the renter because of the equity in the home. In addition, the quality of housing also may be higher for elderly homeowners. Add to this the fact that tax advantages available to the homeowners are not equally available to tenants. In any event, at the same level of income, the economic status of the homeowner may definitely be higher than that for the renter—a fact which should be recognized in whatever method is used in establishing the level of relief to be provided renters by these relief programs.

Rental factors for tenants should at least provide equal relief between homeowners and renters having equal income. However, an interesting case can be made in support of point (c) above, which provides a rental factor that delivers average relief payments favoring renters over homeowners. The rationale for this is as follows.

One criticism levied against the circuit-breaker argues that the relief provided under the program tends to keep elderly people in their large older homes and thus they become over-housed in relation to their needs. A rental factor which would provide higher average relief to renters than that provided to homeowners might tend to encourage elderly homeowners to sell their homes and become tenants.

Thus, States should seriously consider extending their relief programs to renters and if errors are made in establishing the rental factors to be used for tenants, these errors should hopefully be on the side favoring renters.

Administration and Finance

In addition to those issues discussed above, there are a number of other important considerations

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regarding property tax relief programs. Important among these is program administration and finance.

Generally, the circuit-breaker type property tax relief programs may take three broad approaches to program administration: (1) the tax credit or rebate method tied to the State individual income tax returns; (2) separate the relief program from any existing tax administration program; and (3) use of the real estate tax bill.

The first approach has been used very successfully in Minnesota and Wisconsin, as previously indicated. Administrative costs in these States approximate 2 percent of the aggregate amounts of property tax relief paid. Obviously, increasing average benefits through program changes would (and did) reduce average administrative costs per program applicant. Use of this administrative method provides an opportunity for integration of the relief program administration with the administration of the State individual income tax, thereby achieving a number of economies. For example, those who are required to file a State income tax return may use the same return to obtain their property tax relief. In addition, verification of the various computations in determining the correct amount of property tax relief can be done by use of computer programs that become a part of similar programs employed for State individual income tax purposes.

Use of the second administrative method—administration of the property tax relief program mutually exclusive of other tax administration programs—may be the only feasible method in those States that do not have State individual income taxes. This method of program administration can be effective, although administrative costs would likely be slightly higher than use of the first method.

The third approach to program administration—use of the real estate tax bill—would likely prove effective. This method, however, has one major limitation. The property tax relief program would cover only homeowners. If renters are to be covered by the relief program, another administrative method would have to be used for them.

Choice of the administrative method to be used depends upon a variety of considerations. Important among these is who will administer the relief programs? There are three major alternatives: the Federal government, the State government or the various local governments within a State. Obviously, if the third program administrative method is used—the real estate tax bill—local governments would likely become the program administrators.

Another important consideration closely related to program administration is program finance. What level of government should finance the tax relief program? Again, these programs could be financed entirely by (a) the Federal government; (b) the State government; (c) the various local governments within each State; or, alternatively, (d) each level of government could share program costs.

The author's views with respect to program administration and finance are as follows: (a) program administration should be provided by the State government; (b) program finance should be provided by the State governments or, alternatively, the Federal government might finance a share of program costs.

In order to encourage States to provide property tax relief *to those in most need of such relief*, the Federal government could share a part of the cost of these relief programs. To assure responsible State action in this area, the Federal government should finance only a part of the program costs—and only for those State programs having as an essential part of their relief program formula a strong ability-to-pay test.

In either event (State or State-Federal financed) the financial program could be considered a form of revenue sharing. Financing circuit-breaker type property tax relief programs would provide an ideal type of revenue sharing. Some of the unique features and predicatable results of this revenue sharing plan are as follows:

- The plan would distribute revenues to the lowest-income families and individuals (a direct and positive income redistribution program). This can be done with predictable results and low administrative costs with these revenues going only to those for whom the program is intended.

- The plan would distribute revenues to those jurisdictions (States and local governments) having the lowest average incomes associated with the highest average property tax burdens. Thus, those jurisdictions most in need of these revenues would obtain the lion's share of these Federal-State shared revenues.

- The Federal government could be assured of those results outlined above without the need to develop a complicated single nationwide formula for a revenue sharing plan. Rather States would develop their own formula—an essential feature of their property tax relief programs—that would be directly related to the needs of that particular State and the State would share a part of the cost (50 percent) resulting from their own decisions. Much of the difficulty—especially political—of passing a Federal revenue sharing program involves the development of a single nationwide formula that distributes funds within and among the States equitably, based on need in relation to taxable resources available and the willingness of the States and local governments to tax themselves. Moreover, the need for this kind

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of property tax relief varies considerably from State to State.

- The National level policy implications of providing Federal funds—through this revenue sharing plan—to finance a well established and proven property tax relief program (evaluation of the relief program is presented in the next section of this paper) has many merits. Only one among many of these advantages is the substantial improvement that would accrue in utilizing intergovernmental fiscal tools to improve one of the weaker links (the property tax) in our Federal-State-local fiscal institutions.

We should note that the revenue sharing plan described above should be considered a "special revenue sharing plan." The level of funds made available under this plan are modest when compared to the revenues made available ($5 billion) under the general revenue sharing plans currently under discussion. For example, assume each State had the Wisconsin type of tax relief program—with relief formula modifications to meet local income tax levels—the Federal share (50 percent) of the costs would likely be between $200 and $250 million. The actual Federal costs would depend upon the specific property tax relief programs passed in those States not currently having these relief programs.

The remainder of this paper presents some actual results along with a brief general evaluation of the circuit-breaker type of property tax relief programs. Some possible modifications of these programs are also discussed. All these observations are based largely upon the experience of those two States having the longest experience with these programs—Wisconsin and Minnesota.

General Evaluation and Comment

Some of the major contributions of the circuit-breaker plan are as follows:

- The plan successfully accomplished the objective intended—removing the inordinate part of the residential tax burden to those, and only those—for whom the program was intended. This result was achieved at a relatively low administrative cost. Moreover, some important side benefits of the program were achieved and are presented below as major contributions of the plan.

- The plan has transformed the residential property tax from a regressive levy into essentially a proportional levy for those under the program. Modification of the relief formula could achieve a progressive property tax burden in relation to annual household income.

- The plan influences income distribution in the "right" direction, both interpersonally and interjurisdictionally.

- The plan has income distributional influences that can favor either renters or homeowners, or neither, depending upon the wishes of the lawmakers. As discussed previously, the benefits obtained from the relief program by homeowners versus renters can be easily established with predictable results.

- The costs of the plan can be borne by any level of government desired and these costs are accounted for annually. Plan costs can be set by the policy makers at levels they consider appropriate.

- The plan improves the equity of the residential property tax and indirectly provides for further and more equitable utilization of the property tax as a local revenue source, while at the same time, guarding against property tax burden overloads.

- The plan does not involve in any way the Assessor's job in determining the value of the real estate for property tax purposes, thereby improving the equity of the aggregate property tax burden.

- The plan delivers the tax relief funds where they are most needed.

- The plan is a dignified and humane method for granting tax relief.

- The plan introduces a badly needed element of economic realism (total income into the ancient property tax thereby improving the equity of the tax.

- The approach can be used to aid any group selected by the legislature that in its consideration merits tax relief. In this regard, we have often recommended use of the circuit-breaker plan for farmers on the urban fringe rather than use of the preferential assessment technique—a system of questionable merit in our opinion.

- The plan relieves pressures on assessors to grant hardship relief through extra-legal assessment policies.

- The plan can be easily changed to meet the desires of the policy makers.

- The plan can be used not only to grant partial property tax exemptions, but also to phase in currently existing institutions that are presently exempted from the property tax. We have often discussed this unique use of this approach. This system has unique implications for use in phasing into taxation currently exempted property.

In summary, we submit that the circuit-breaker type

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of property tax relief programs have a number of unique advantages that in the aggregate can serve to remove the property tax from the area of the fiscal badlands in our intergovernmental fiscal institutions to a modern plateau where the property tax becomes a twentieth century fiscal institution.

Additional Data for Selected States

The following tables outline the amount of relief under varying income and tax levels provided by selected State property tax relief programs. In some cases the relief amounts shown in these tables would differ slightly from that actually paid. This results from the specific income and property tax levels assumed and the use of tax relief tables in some States.

Table E-6

Comparison of Tax Relief for Homestead With Household Income $1,000 and Various Levels of Property Taxes

	Property Taxes							
State	**$100**	**$200**	**$300**	**$400**	**$500**	**$600**	**$700**	**$800**
Wisconsin	60	120	180	240	297	297	297	297
Minnesota	100	180	260	340	420	500	580	640
Vermont								
a) 1.0 Local Rate Factor	30	130	230	230	230	230	230	230
b) 1.4 Local Rate Factor	42	182	300	322	322	322	322	322
Colorado								
a) Married Couple	50	100	150	200	200	200	200	200
b) Single Person	50	100	150	150	150	150	150	150
Maine	100	200	210	210	210	210	210	210
New Jersey	100	160	160	160	160	160	160	160
Pennsylvania	90	180	200	200	200	200	200	200
Iowa	100	125	125	125	125	125	125	125
Oregon								
a) Born Before March 1, 1891	100	200	300	400	400	400	400	400
b) Born March 1, 1891, or After	70	170	270	370	400	400	400	400

Source: Tax Analysis Staff, Wisconsin Department of Revenue

Table E-7

Comparison of Tax Relief for Homestead with Household Income of $2,000 and Various Levels of Property Taxes

	Property Taxes							
State	**$100**	**$200**	**$300**	**$400**	**$500**	**$600**	**$700**	**$800**
Wisconsin	14	74	134	194	251	251	251	251
Minnesota	65	117	169	221	273	325	377	416
Vermont								
a) 1.0 Local Rate Factor		60	160	160	160	160	160	160
b) 1.4 Local Rate Factor	—	84	224	224	224	224	224	224
Colorado								
a) Married Couple	50	100	150	180	180	180	180	180
b) Single Person	50	50	50	50	50	50	50	50
Maine	100	140	140	140	140	140	140	140
New Jersey	100	160	160	160	160	160	160	160
Pennsylvania	70	140	200	200	200	200	200	200
Iowa	100	125	125	125	125	125	125	125
Oregon								
a) Born Before March 1, 1891	100	200	300	400	400	400	400	400
b) Born March 1, 1891, or After	20	120	220	320	400	400	400	400

Source: Tax Analysis Staff, Wisconsin Department of Revenue

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Tabe E-8

Comparison of Tax Relief for Homestead with Household Income of $3,000 and Various Levels of Property Taxes

	Property Taxes							
State	**$100**	**$200**	**$300**	**$400**	**$500**	**$600**	**$700**	**$800**
Wisconsin	—	—	50	110	167	167	167	167
Minnesota	42	76	110	144	178	212	246	272
Vermont								
a) 1.0 Local Rate Factor	—	—	90	90	90	90	90	90
b) 1.4 Local Rate Factor	—	—	126	126	126	126	126	126
Colorado								
a) Married Couple	50	80	80	80	80	80	80	80
b) Single Person	—	—	—	—	—	—	—	—
Maine	70	70	70	70	70	70	70	70
New Jersey	100	160	160	160	160	160	160	160
Pennsylvania	50	100	150	200	200	200	200	200
Iowa	100	125	125	125	125	125	125	125
Oregon								
a) Born Before March 1, 1891	100	200	300	400	400	400	400	400
b) Born March 1, 1891, or After	—	80	180	280	380	400	400	400

Source: Tax Analysis Staff, Wisconsin Department of Revenue

Table E-9

Comparison of Tax Relief for Homestead With Household Income of $4,000 and Various Levels of Property Taxes

	Property Taxes							
State	**$100**	**$200**	**$300**	**$400**	**$500**	**$600**	**$700**	**$800**
Wisconsin	—	—	—	26	83	83	83	83
Minnesota	20	36	52	68	84	100	116	128
Vermont								
a) 1.0 Local Rate Factor	—	—	20	20	20	20	20	20
b) 1.4 Local Rate Factor	—	—	28	28	28	28	28	28
Colorado								
a) Married Couple	—	—	—	—	—	—	—	—
b) Single Person	—	—	—	—	—	—	—	—
Maine	—	—	—	—	—	—	—	—
New Jersey	100	160	160	160	160	160	160	160
Pennsylvania	30	60	90	120	150	180	200	200
Iowa	—	—	—	—	—	—	—	—
Oregon								
a) Born Before March 1, 1891	—	—	100	200	300	300	300	300
b) Born March 1, 1891, or After	—	—	100	200	300	300	300	300

Source: Tax Analysis Staff, Wisconsin Department of Revenue

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Table E-10

Comparison of Tax Relief for Homestead With Household Income of $4,500 and Various Levels of Property Taxes

States	Property Taxes							
	$100	$200	$300	$400	$500	$600	$700	$800
Wisconsin	—	—	—	—	41	41	41	41
Minnesota	12	22	32	42	52	62	72	80
Vermont								
a) 1.0 Local Rate Factor	—	—	—	—	—	—	—	—
b) 1.4 Local Rate Factor	—	—	—	—	—	—	—	—
Colorado								
a) Married Couple	—	—	—	—	—	—	—	—
b) Single Person	—	—	—	—	—	—	—	—
Maine	—	—	—	—	—	—	—	—
New Jersey	100	160	160	160	160	160	160	160
Pennsylvania	30	60	90	120	150	180	200	200
Iowa	—	—	—	—	—	—	—	—
a) Born Before March 1, 1891	—	—	75	175	275	300	300	300
b) Born March 1, 1891, or After	—	—	75	175	275	300	300	300

Source: Tax Analysis Staff, Wisconsin Department of Revenue

FOOTNOTES

[1]Billy D. Cook, Some Salient Observations on the Wisconsin Circuit-Breaker: An Anti-Poverty Device, 1965, unpublished paper.

[2]Billy D. Cook, Kenneth E. Quindry, and Harold M. Groves, "Old Aged Homestead Relief – The Wisconsin Experience," *National Tax Journal*, XIX, September, 1966, pp. 319-324.

[3]Kenneth E. Quindry and Billy D. Cook, "Humanization of the Property Tax for Low-Income Households," *National Tax Journal*, XXII, September, 1969, pp. 357-367.

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Part II

Residential Property Tax Relief for Senior Citizens in Maine and Vermont

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Several public officials were interviewed in the States of Maine and Vermont in the period, May 1 to May 5, 1972. In Maine, those interviewed included members of the legislature, the Office of the Governor, the Bureau of Taxation, and the Governor's Committee on Aging. In Vermont, we spoke to people in the legislature, the Office of the Governor, the Department of Taxes, and the Department of Budget and Management. The following comments relay the impressions we, as interviewers, received and also some salient provisions of the programs in the two States. Lastly, some general comments based on the discussions are presented.

The Program In Maine

The program grew out of the realization by the Governor's Committee on Aging of the increasing property tax burden on senior citizens. There seemed to be no opposition to relief, but some disagreement as to the distribution formula and the amount the State could afford. Both private organizations and public administrative officials were agreeable to relief but did not press for it; senior citizens groups and retiree groups were instrumental. The most favored form of relief was a proposal modeled on the Wisconsin plan. The 104th legislature (1969) considered several proposals to provide property tax relief. One rather widely discussed program was Governor Curtis' recommendations of rebates from the State general fund to provide property tax relief for homeowners aged 65 and over with household incomes of $3,000 per year or less.

The bill that finally passed relieved household heads from *increases* in property taxes. It permitted localities to waive increases in property taxes of senior citizens who occupied a single family residence and who had income of $4,000 per year or less. No relief was granted to renters. Costs were to be recovered by localities by use of a tax lien on the home to be enforced after claimant and spouse, if present, ceased to use the home as a residence. The lien provision was found after passage to be very unpopular. Only 88 percent of those who inquired about the program actually applied for relief, and only $4,500 was paid out.

This program was replaced with circuit-breaker legislation by the 105th legislature in 1971 and amended in 1972. The first claims were filed between August 1, 1972 and October 15, 1972 in regard to claims for rebates based on 1971 incomes and taxes or rent accrued or paid.

The original administration proposal was modeled after the Wisconsin program and the ACIR suggested statute. However, because of a revision in the distribution formula, the program as finally accepted was really an income supplement rather than property tax relief. Relief is computed as 7 percent of the difference between household income and $4,000, but no more than the amount of occupancy property tax or 20 percent of occupancy rent. This formula is considered to be more easily understood and more readily accepted than the Wisconsin formula. The House sponsor of the bill attempted to set 25 percent of rent as the property tax equivalent figure, but this was cut to 20 percent because of budgetary limitations. An amendment (1972) provides that in subsequent years relief payments will be increased as the consumer price index increases, once it advances by 3 percent.

Payment is made by the Bureau of Taxation directly to the claimant. Only minimum auditing of claims is anticipated. The administration bill was also amended to include an assets test or limitation of $30,000. Retired farmers and families in expensive homes are those most likely to be adversely affected by this change. No lien on property was required. The cost of the program, and the administration, are the responsibility of the State.

While the program as passed by the 105th legislature was largely an administration measure, no organized groups opposed property tax relief for the elderly in some form. Numerous statewide private groups, including retired teachers groups, retired State employees groups as well as senior citizens groups attended public hearings and generally favored the administration proposal. Senior citizens

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particularly opposed alternative bills with lien provisions or small appropriations.

Salient features of the programs are listed in Table E-13. Since the program was initiated in 1972, no statistical data are available. However, some estimates have been furnished. For 1972-73 $3,430,000 was appropriated for payment of claims and $11,420 for administrative costs. It is not clear, however, that $11,420 will meet the true cost of administration. The original bill had requested $3,400 for capital expendutures and $38,000 for personal services. The 1972 amendments transferred $600,000 to the Department of Health and Welfare when property tax relief to welfare recipients was shifted to the old age assistance program. Average payments under the circuit-breaker are estimated at near $120 for 23,245 claimants.

The law is not specific in many cases. Some problems can be solved by administrative ruling. For those that cannot, amendments will be proposed in 1973.

Because of the newness of the program, problems can only be anticipated. It was suggested that a breakdown of rent into payment for occupancy and additional payments for rental of furniture, utilities, etc. might prove difficult. Other problems foreseen included treatment of mobile homes (e.g. owned home placed on rented pad) and those living in rented quarters a part of the year and owned quarters the rest of the year. The law is specific on this last point, but seems to be biased since it allows credit only for the property tax portion.

Efforts to publicize the program have not been excessively vigorous. Originally no newspaper, television or radio coverage was used. The Committee on Aging, however, plans to do some one minute video tapes for release to television stations. There was little evident concern that large numbers of eligible claimants will be uninformed about the program.

The Program In Vermont

The circuit-breaker in Vermont was, in part, a "sweetener" for the new sales tax. It was designed to relieve burdens of both the property and sales taxes of one group of households with low ability to pay taxes. Because the circuit-breaker was tied to enactment of the sales tax, senior citizens became strong advocates of the consumer levy. The program was sponsored by the Governor and met almost no opposition from either political party, individual legislators, or private or public agencies; although these organized groups were not pushing vigorously for property tax relief for senior citizens.

It was recognized, however, that the growing property tax burden, especially that part attributed to educational costs, was rapidly becoming unduly burdensome on low-income families. Responsibility for the growing burden was placed, in part, on out-of-state investments in vacation homes and recreational facilities. These investments were driving up real estate prices without creating any evident comparable rises in household incomes of many native Vermonters. Rises in government costs precluded any lowering of effective property tax rates.

The proposal for senior citizen property tax relief originally was suggested in a tax study report in 1966. The recommendation suggested that the General Assembly adopt the Wisconsin plan of income tax credits for excessive property tax liabilities. This recommendation was coupled with a general homestead exemption recommendation, and was expected to cost about $500,000 annually. This initial proposal was associated with a democratic governor and met with no success in the republican legislature.

The republican gubernatorial candidate in 1968 made the circuit-breaker part of his platform, and the program that passed in 1969 was essentially his program. It was modelled after the Wisconsin plan, but the distribution formula was modified and somewhat simplified. Relief is granted to eligible claimants for property taxes in excess of 7 percent of household income, with three exceptions. First, a $300 limit is placed on property taxes or rent constituting property taxes that can be used to compute relief. Second, eligible claimants living in areas of high property tax rates will have their relief multiplied by a factor ranging from 1.1 to 1.4, thus reducing the effective tax below 7 percent of household income for many. Third, relief, is limited to the amount of property taxes or rent constituting property taxes accrued or paid in the year for which relief is requested. Basic relief is computed as an amount equal to the amount by which property taxes or rent constituting property taxes exceeds 7 percent of household income, modified as noted above.

Payment of relief is accomplished through income tax credits or rebates if income tax liability is less than the relief. Originally 20 percent of rent was used in lieu of property taxes for computing relief. This amount was increased to 30 percent for 1972, and there is a possibility that proposals will be offered to the 1973 legislature to raise it to 40 percent because the relationship of the property tax burden to rent paid seems to be "out of order." The original 20 percent figure was selected because of the ACIR recommendations and practices in other States. The change to 30 percent was thought to bring payments to renters and homeowners at similar income levels more into balance.

The possibility of an asset test was discussed briefly and discarded because of the rare instances in which it would affect rebates and because of the

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administrative problems and inequities it might create. Since property lien provisions were removed from the welfare programs, it was not considered equitable to include liens in the old aged property tax relief program.

Only a minimum amount of auditing of claimants' returns is being undertaken.

The cost of the program (both relief and administration) is borne by the State. In 1969-70 and 1970-71 total relief amounted to $608,475 and $533,400 respectively. Because of some liberalizations, cost in 1972 (for calendar year 1971 property taxes), is approaching $1 million, the amount originally suggested by the administration as being available for relief. The belief was stated by some interviewees that numerous potential (and eligible) claimants are not filing for tax relief in spite of rather vigorous efforts to publicize the program. Others believed that the bulk of claimants meeting all requirements for credits or rebates were filing. A rather widespread effort was made to publicize the program through tax department visual aids, radio announcements, news releases, senior citizens groups, social welfare groups and welfare departments. It was estimated that $50,000 was spent on the publicity campaign.

General Comments

In several respects, attitudes and beliefs about the program of property tax relief were similar in the two States. For that reason, the general comments that follow attempt to summarize the impressions we received in our discussions in both Maine and Vermont.

Providing similar tax relief for other low-income groups. This would include provision of relief to the totally and permanently disabled regardless of age, reduction of the age limits, and relief to all low-income families whose taxes exceeded an established percentage of household income. The general belief was that this was desirable, but State finances might not stretch that far. The programs limited to the aged were not really general property tax relief but did benefit a small group. Because of the limited scope, attitudes toward the property tax were not likely to be significantly altered.

Formulas could well be liberalized, increasing the average amount of relief, but again liberalization is limited by the availability of funds. It was generally considered essential to include renters in the program in the interest of equity.

In summary, there was considerable belief that the program should be expanded to include other low-income groups and that average payments should be increased. On the other hand, others believed that efforts could better be directed toward general property tax relief.

The Form of the Relief

For the most part the Wisconsin plan was favored. In both States the plan was compromised (especially the formula for distributing relief) in the interest of simplicity and of appeasing a minority of legislators. The simplified provisions, however, did not seem to be generally favored because they compromised equity.

Financing

Such programs could be financed by local governments, State governments, the Federal government or some combination of the three. Most interviewees expressed the view that local governments in general could ill afford to finance a mandatory program; the States could finance a minimum program, but a comprehensive (or liberalized) program would need some Federal financial assistance.

Administration

Regardless of the method of financing, the State should retain the administrative responsibility. It was not generally considered desirable to have local administration because of possible lack of uniformity in administration and the possibility that many prospective claimants would not reveal confidential data to local officials. It was felt that States should control the administration of the program even if a significant portion of the financing came from the Federal government. One reason for favoring State administrative responsibility seemed to be political. State politicians wanted claimants to realize their involvement in providing the relief. Federal administration through the Internal Revenue Service was not favored.

Within the State government, the department of taxation (or finance, or revenue, etc.) was considered to be the most likely agency for administration because of the "welfare" connotation that would be attached to administration by a welfare department. However, it might be that a welfare department would be better prepared to administer the program because of its field staff and greater acquaintance with senior citizens and low-income people.

Coverage

For equity reasons, both owners and renters should be covered regardless of how limited the program was. There was no real knowledge as to the amount of rent that should constitute property taxes for purposes of computing relief. However, some knowledge was developing as to average payments of owners and renters in relation to household income. Out of this could develop some adjustments that would lead to somewhat "equitable" relief payments. The percentage will differ between States, but possibly be within a range of 20 to 40 percent.

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Income Ceiling

There should be an income ceiling, and it possibly should be near the intermediate level of the living costs of a senior couple as established by the Bureau of Labor Statistics ($4,489 in the spring of 1970).

Information Programs

There was some indecision as to the effectiveness of information programs. There was much belief that not all potentially eligible claimants were filing, but some of those likely to be most knowledgeable disagreed with this assessment. Some people were thought not to be filing because of the "welfare" connotation of property tax relief, but some did not feel this group to be very large.

Implementation

The program was implemented through income tax credits or rebates in one State and directly as rebates in the other. Each State believed its system superior. Maine officials believed direct rebates preferable because rebates could be processed in "off-season" periods. Vermont officials believed using the income tax as a vehicle of providing the relief would be more efficient. Maine officials pointed out that only about a third of the claimants in Vermont had legal responsibility for filing income tax returns, and almost all of these had property tax credits greater than their income tax liability. Combining the property tax credit with the income tax would thus have little effect on the number of checks to be sent out.

Asset Test

This was not generally favored by the interviewees even though one was incorporated in the program for Maine. Certain groups of households would have considerable property values with little income producing ability. They would be ineligible yet have inordinately high tax burdens. In addition, it was believed that an insignificant number of families would be affected and auditing problems would be compounded.

Lien

Establishing a lien on the homestead in the amount of tax relief also was not favored. In the first place, a lien could not be established on the renter. For the homeowner, a lien is little more than a loan and few senior citizens would be willing to mortgage their homestead after working years to pay for it. Lien programs, where tried, have generally failed to attract many takers.

Cost

In both States (as well as in several others) a suggested cost of the program had been established before the formula for distribution was devised. The purpose of this was to limit the cost to an amount the State authorities believe they could reasonably allocate to the program. Refunds by income class for Vermont's program for 1969-70 and 1970-71 are listed in Table E-11. Maine as yet has no collection experience to report. Liberalization of the program generally follows after a year or two of experience. Liberalization takes the form of (a) increasing the portion of tax payments to be relieved, (b) lowering the age limit, (c) raising the income maximum, (d) bringing under the program additional groups, (e) raising the limit of taxes or rent constituting taxes or (f) a combination of these.

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Table E-11

Summary of Senior Citizens Property Tax Refunds, Vermont, 1969-70 and 1970-71 by Income Class

	1970-71				1969-70		Average Refund	
	Homeowners		Renters					
Income Class	Claims	Refunds	Claims	Refunds	Claims	Refunds	1970-71	1969-70
$ 0- 500	37	$ 6,200	2	$ 150	65	$ 9,025	$162.82	$138.85
500-1,000	303	43,125	55	4,675	551	70,500	133.52	127.95
1,000-1,500	682	97,400	165	12,175	1,161	145,975	129.37	125.73
1,500-2,000	868	115,600	213	12,625	1,254	139,650	118.62	111.36
2,000-2,500	798	91,900	174	9,700	1,013	108,025	104.53	106.64
2,500-3,000	737	68,825	55	3,675	745	67,175	91.54	90.17
3,000-3,500	636	41,300	26	1,600	646	43,150	64.80	66.80
3,500-4,000	524	19,050	15	525	489	19,075	36.32	39.01
4,000-up	188	4,700	7	175	104	5,900	25.00	28.92
Total	**4,773**	**$488,100**	**712**	**$45,300**	**6,128**	**$608,475**	**$97.25**	**$99.29**
Average		**$102.26**		**$63.62**		**$99.29**		

Source: Department of Budget and Management, State of Vermont.

Table E-12

Vermont Circuit-Breaker Program Selected Data, Calendar 1970 Homeowners Only

Household Income Class	Number of Claims	Average Property Tax Before Relief	Average Property Tax After Relief	Percent of Tax Burden Relieved	Tax Burden Before Relief*	Tax Burden After Relief*
$ 0- 499	37	$ 241	$ 74	69%	96%	30%
500- 999	303	222	79	64	30	11
1,000-1,499	682	248	105	58	20	8
1,500-1,999	868	274	141	49	16	8
2,000-2,499	798	294	179	39	13	8
2,500-2,999	737	310	216	30	11	8
3,000-3,499	636	327	262	20	10	8
3,500-3,999	524	339	303	11	9	8
4,000 and up	188	345	320	7	9	8

*Tax burden is tax as percent of household income

Source: ACIR staff calculations based on data supplied by Vermont Department of Taxes

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Table E-13

Analysis of Residential Property Tax Relief for Senior Citizens, Maine and Vermont

	Maine	Vermont
Relief	Owners and Renters	Owners and Renters
Computation of Amount of Relief	7% of difference between total income of household and $4,000 but not to exceed the amount of property tax or 20% of rent paid.	The amount by which property taxes or 30 percent of rent exceed 7 percent of household income times a local rate factor.
Cost of Program	$3,430,000 (est. 1972-73)	$533,400 (1970-71) $608,475* (1969-70)
Number of Claims Filed	123,245 (est. 1972-73)	5,485 (1970-71) 6,128 (1969-70)
Asset Limit	$30,000 market value including residence	None
Income Limit	$4,000	$4,286
Administration of Program	State Bureau of Taxation	State Department of Taxes
Eligible Groups	Aged only, excluding individuals in households receiving aid to aged, disabled, or blind from the State Dept. of Health and Welfare.	Aged only, including individuals on old aged assistance
Residence Requirement	Domiciled in state for entire year for which relief is claimed and owned or rented dwelling during the entire year.	Domiciled in state during entire year.
Payments	Directly to claimant by State Bureau of Taxation	As an income tax credit or refund when rebate exceeds income tax liability
Age Requirements	One member in the household must have reached age 65 (male) or 62 (female) during the year with no less than 35% of income being attributable to that member.	Claimant or one of two individuals filing must be 65 years of age or older during some part of taxable year.
Administrative Costs	Appropriation of $11,420 (1972-73)	$28,024 (1970-71)
Maximum Amount of Property Tax Relief	$280	$300
Relief up to 100% of Property Tax in Some Cases?	Yes	Yes

*Rebates in 1971-72 on 1971 property taxes will be approximately $1,000,000 because of liberalization of the program; average refunds are expected to increase from $99 and $88 in the two previous years to $135 in 1972-73.

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Appendix F

Status of State Level General Property Tax, 1972

State	Is Statewide General Property Tax Legal?		Statewide General Property Tax Rate/Basis	Comments: Legal Status of Statewide General Property Tax	Necessary Changes to Shift from Local to Statewide Tax
Alabama	Yes	Rate:	65/100's of 1% of assessed value (6½ mills).	New property classification adopted by constitutional amendment, June, 1972.	Rate legislation
		Basis:	Three classes of property assessed at 30, 25, and 15% of market value (see comments).		
Alaska	No	Not	Applicable.	A 1949 law imposed a general property tax for Alaska. Law was repealed in 1953, but was ruled constitutional before repeal.	Enabling and rate legislation
Arizona	Yes	Rate:	Set annually by State Tax Commission; Automatic rate of $1.50 per $100 of assessed valuation if not set by commission.	Established by statute and upheld by U.S. Supreme Court.	None
		Basis:	Four classes of property, assessed at 60, 40, 25, and 18% of cash value.		
Arkansas	No	Not	Applicable.	State general property tax repealed by statute —1947. Further prohibited by constitutional amendment No. 47, 1958.	Constitutional change; Enabling and rate legislation
California	No	Not	Applicable.	State has reserved the right to levy statewide general property tax up to 25% of total appropriations from all its funds, but has not levied one since 1914.	Enabling and rate legislation
Colorado	Yes	Rate:	Not currently levied.	Rate of state tax subject to constitutional limits—maximum rate of 5 mills per $1 of assessed valuation. Tax not currently levied.	Constitutional change; Enabling and rate legislation
		Basis:	30% of actual value.		

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State	Is Statewide General Property Tax Legal?		Statewide General Property Tax Rate/Basis	Comments: Legal Status of Statewide General Property Tax	Necessary Changes to Shift from Local to Statewide Tax
Connecticut	No	Not	Applicable.	Constitution silent on taxation provisions.	Enabling and rate legislation
Delaware	No	Not	Applicable.	No prohibiting constitutional provisions.	Enabling and rate legislation
Florida	No	Not	Applicable.	State constitution provides that no state ad valorem taxes be levied upon *real* or *tangible* personal property. Sizable state revenues are derived from a special property tax on intangibles.	Constitutional change; Enabling and rate legislation
Georgia	Yes	Rate:	¼ of 1 mill per $1; 5 mills per $1 on bank shares (see comments).	Current rates are at constitutional limits.	Constitutional change; Rate legislation
		Basis:	40% of assessed valuation.		
Hawaii	Yes	Rate:	Varies by district (see comments). 1971 Range from $12.00 to $22.12 per $1,000.	All property taxes in Hawaii are levied by the state government, varying by district to satisfy county budgets.	None
		Basis:	Fair Market Value (generally assessed at 70%).		
Idaho	No	Not	Applicable.	Tax authorized by constitution, up to but not to exceed 10 mills without approval of people by general election, suspended by statute in 1965, for any period during which a sales tax is in force.	Constitutional change as to rate; Repeal, enabling legislation
Illinois	Yes	Rate:	Not currently levied (see comments).	Tax is authorized, but there has been no levy since 1932.	Enabling legislation
Indiana	Yes	Rate:	1¢ per $100 of assessed value.	Legislative limit of 1¢ per $100.	Rate legislation
		Basis:	Assessed at 33 1/3% of cash value.		
Iowa	Yes	Rate:	Not currently levied (see comments).	Tax is authorized, but there has been no levy since 1941.	Enabling and rate legislation
Kansas	Yes	Rate:	1.5 mills per dollar of assessed valuation.		Rate legislation
		Basis:	30% of "fair market value."		

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State	Is Statewide General Property Tax Legal?		Statewide General Property Tax Rate/Basis	Comments: Legal Status of Statewide General Property Tax	Necessary Changes to Shift from Local to Statewide Tax
Kentucky	Yes	Rates:	Real property 1½¢ per $100; money, etc. 25¢ per $100; other special rates—otherwise all other property 15¢ per $100.		Rate legislation
		Basis:	Assessed at 100% of fair cash value.		
Louisiana	Yes	Rate:	5¾ mills per dollar of assessed cash value (see comments).	Constitutional limit of 5¼ mills; can be increased by ¾ legislative vote to 5¾ mills.	Constitutional change; Rate legislation
		Basis:	Not more than actual cash value.		
Maine	Yes	Rate:	20 mills per $1.00.		Rate legislation
		Basis:	Currently fixed at 50% of present day market values.		
Maryland	Yes	Rate:	$1.80 per $1000.		Rate legislation
		Basis:	100% of market value (generally assessed at 60%).		
Massachusetts	No	Not	Applicable	No prohibiting constitutional provisions.	Enabling and rate legislation
Michigan	Yes	Rate:	Not currently levied (see comments).	1932 constitutional amendment placed 1½% limit on property taxes. State levy was discontinued in 1935. New constitution (1964) removed the limit to tax for obligations of *school districts*.	Enabling and rate legislation
Minnesota	Yes	Rate:	Not currently levied (see comments).	Beginning with the taxes payable in 1968, other revenues have been appropriated by the legislature to fund expenditures, rather than to make a statewide property tax levy.	Rate legislation
		Basis:	Assessed at market value; various property classifications.		
Mississippi	Yes	Rate:	4 mills per $1 of assessed valuation.		Rate legislation
		Basis:	Assessed in proportion to its value (what the owner would accept for it if disposed to sell).		
Missouri	Yes	Rate:	$.03 per $100 of assessed valuation.		Rate legislation
		Basis:	Property assessed at a 30% assessment ratio.		

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State	Is Statewide General Property Tax Legal?	Statewide General Property Tax Rate/Basis	Comments: Legal Status of Statewide General Property Tax	Necessary Changes to Shift from Local to Statewide Tax
Montana	Yes	Rate: 2 mills per $1—general fund; 7 mills per $1—special purposes (see comments). Basis: Taxable value approximates 12% of true value.	New constitution, adopted June, 1972, does not have rate limits that were in previous constitution.	Rate legislation
Nebraska	No	Not Applicable.	In 1966, constitution amended to prohibit the state from levying a property tax.	Constitutional change; Enabling and rate legislation
Nevada	Yes	Rate: $.25 per $100 (see comments). Basis: 35% of its full cash value.	Rate subject to constitutional limit of $5 on each $100 value of taxable property.	Rate legislation
New Hampshire	No	Not Applicable.	Legislation provides that no direct state tax levied on cities and towns while tobacco tax is in effect.	Repeal, enabling, and rate legislation
New Jersey	Yes	Rate: $1.30 per $100 of taxable value. Basis: 50% of fair value (original cost).	After 1968, all nonbusiness personalty exempt from state and local property taxation.	Repeal and rate legislation
New Mexico	Yes	Rate: $5.55 per $1,000, established each year by State Tax Commission (see comments). Basis: 33 1/3% of taxable value.	Rate subject to constitutional limit of 20 mills; additional taxes outside of this limitation when approved by a majority of the voters of the taxing district voting on bonds. Tax basis also subject to constitutional limit.	Constitutional change; or referendum Rate legislation
New York	No	Not Applicable	The state real property tax was discontinued in 1928. Personal property taxation was discontinued for both the state and localities in 1933. Act XVI, Sec. 3, adopted in 1938 prohibits ad valorem taxation of intangible personal property.	Enabling and rate legislation for real or tangible personal property taxation; constitutional amendment for intangible personal property taxation.
North Carolina	Yes	Rate: Not currently levied.	All limits removed by new Article of Constitution, effective	Rate legislation

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State	Is Statewide General Property Tax Legal?		Statewide General Property Tax Rate/Basis	Comments: Legal Status of Statewide General Property Tax	Necessary Changes to Shift from Local to Statewide Tax
				July 1, 1973. Presently limited to 5¢ per $100 value. Has not been levied for many years (limitation does not apply to taxes levied for the maintenance of public schools).	
North Dakota	Yes	Rate:	1 mill per dollar of valuation (see comments).	Rate subject to constitutional limits of 4 mills on the dollar of the net taxable assessed valuation.	Constitutional change; Rate legislation
		Basis:	50% of full and true value.		
Ohio	Yes	Rate:	Not currently levied (see comments).	Rate subject to constitutional limits of 10 mills (except in a number of charter cities); rate may be higher if voted by electorate.	Constitutional change; or referendum Rate legislation
		Basis:	Real property—35% of its true value in money; personal property 45%-66%—usually 50% of depreciated value.		
Oklahoma	No	Not	Applicable.	Constitution provides that no property tax shall be levied for state purposes.	Constitutional change; Enabling and rate legislation
Oregon	No	Rate:	Not applicable.	Constitutional tax base (expenditure limit) inadequate. Statutes presently limit state levy to bonded indebtedness or interest purposes only. No state tax levied since 1960, or collected since 1940.	Tax base increase (referendum), or constitutional change; Repeal, enabling and rate legislation
		Basis:	Real and personal property—100% of its true cash value.		
Pennsylvania	Yes	Rate:	Not currently levied (see comments).	No constitutional restrictions. State levies a property tax on certain types of intangible personal property.	Enabling and rate legislation
Rhode Island	Yes	Rate:	Not currently levied. Levy for state purposes is a levy against cities and towns, rather than directly against individuals (see comments).	Right to levy statewide general property tax exists at the state level, but the Legislature has assigned this right to cities and towns.	Rate legislation
		Basis:	Law requires 100% of fair cash value; actual proportion varies by community.		

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State	Is Statewide General Property Tax Legal?		Statewide General Property Tax Rate/Basis	Comments: Legal Status of Statewide General Property Tax	Necessary Changes to Shift from Local to Statewide Tax
South Carolina	No	Not	Applicable.	Although not prohibited by the state's constitution, there has been no state levy since 1942.	Enabling and rate legislation
South Dakota	Yes	Rate: Basis:	Not currently levied (see comments). Taxable value 60% of assessed value. Latest assessed value at 40% of selling price.	Constitution empowers the legislature, whenever it appears that ordinary expenses shall exceed the state's income for a particular year, to provide for levying a state tax for the ensuing year, not to exceed in any one year 2 mills on each dollar of valuation. Last levied in 1956, at 1 mill.	Constitutional change; Rate legislation
Tennessee	No	Not	Applicable.	Chapter 90, Laws of 1949, abolished the state ad valorem tax on property	Enabling and rate legislation
Texas	No	Not	Applicable.	In 1951, state constitution amended to abolish the state ad valorem tax for general revenue purposes.	Constitutional change; Enabling and rate legislation
Utah	Yes	Rate: Basis:	7.2 mills on each dollar of valuation. 30% of its reasonable fair cash value.		Rate legislation
Vermont	No	Not	Applicable.	Although not prohibited by the constitution, the state does not levy a general state ad valorem tax.	Enabling and rate legislation
Virginia	No	Not	Applicable.	1928 constitutional amendment prohibited a state tax for state purposes.	Constitutional change; Enabling and rate legislation
Washington	Yes	Rate: Basis:	4 mills per dollar of valuation (see comments). 50% of its true and fair value.	Rate subject by law that the aggregate of all tax levies on real and personal property may not exceed 22 mills per dollar of assessed value for levies made in 1970, 1971 and 1972 and 21 mills per dollar for levies made in subsequent years.	Rate legislation

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State	Is Statewide General Property Tax Legal?	Statewide General Property Tax Rate/Basis	Comments: Legal Status of Statewide General Property Tax	Necessary Changes to Shift from Local to Statewide Tax
West Virginia	Yes	Rate: Class I (.0025%); Class II (.005%); Class III (.01%); Class IV (.01%) Basis: (see comments) All property assessed at its true and actual value.	Rate limitations established by constitutional amendment and are implemented by statute – Class I ($0.50 per $100); Class II ($1.00 per $100); Class III ($1.50 per $100); Class IV ($2.00 per $100). Limited term excess levy rates may be imposed by referendum. Rates expressed above are total limits for all levying bodies on any one piece of property.	Rate legislation; Allocation legislation
Wisconsin	Yes	Rate: .2 mill per dollar. Basis: 100% of true value.		Rate legislation
Wyoming	Yes	Rate: $6.00 per $1,000 of assessed valuation (see comments). Basis: 100% of its fair value for all minerals, all other property at an approximate 25% of fair value.	Rate subject to constitutional limits of 4 mills on the dollar of assessed value for state general revenue; 6 mills including public schools.	Constitutional change; Rate legislation

Source: Charles E. Venus and W. Richard McLean, *Status of State Level General Property Taxes, 1972* (Little Rock: University of Arkansas, Industrial Research and Extension Center, College of Business Administration, June, 1972, Pub. 1-7).

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Appendix G

Problems Under State Law of Federal Residential Property Tax Relief Proposals

By
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Alabama

I. Problems in limiting property tax use for education to State taxation of nonresidential property.

A. Problems in limiting local property tax use to non-education purposes.

1. *Constitutional problems*

Alabama's constitution, as amended in the 1950s, does not describe education as a primary responsibility of State government. The constitution establishes a "state policy to foster and promote the education of its citizens," but states that "nothing in this Constitution should be construed as creating or recognizing any right to education at public expense." *(Amdt. 111, S. 256)*. Hence, the State has no constitutional duty to establish modes of local government financing of education.

However, an end to local property tax financing of education does not leave local governments without a way to fund local education expenditures. Local governments can by ordinance enact a local sales tax which in form parallels the State sales tax and is collected by the State *(Title 37, Ch. 771 (1))*. Each local government is free to set the local tax rate *(T. 37, Ch. 771 (2))*. In addition, as there is no constitutional prohibition against a local income tax *(see Amdt 25)*, the legislature could authorize communities to enact local income taxes.

2. *Statutory problems*

School expenditures are presently financed out of a combination of local property tax funds, State aid (from the State sales, income and property taxes), and local sales taxes in those communities adopting that tax. State aid is given primarily through a minimum program fund *(see T. 53, Chs. 208-215)*, plus assorted special aid programs. Through these programs the State distributes nearly 70 percent of the total State and local revenues used for education *(ACIR, State and Local Finances, 1972, p. 132)*.

This statutory framework would require only minor revision if local property tax financing of education were to be ended. Most local governments could finance their share of expenditures out of a local sales tax, except perhaps wealthy communities where State aid does not constitute a large proportion of local school expenditures. Thus, the primary statutory alteration that may be required (unless complete State financing is desired) might be to change the present State aid program away from an equalizing scheme to a high level flat grant scheme.

B. Problems in establishing a State property tax on nonresidential property only.

1. *Constitutional problems*

a. *Exempting residential property from a general State property tax.*

The Alabama constitution contains two clauses that pertain to property taxation. Section 211 provides that "all taxes levied on property in this State shall be assessed in exact proportion to the value of such property." Until May 1, 1972, the second clause, Section 217, read as follows:

> The property of private corporations, associations and individuals of this State shall forever

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be taxed at the same rate; provided, this section shall not apply to institutions devoted exclusively to religious, educational or charitable purposes.

However, this version of Section 217 has now been replaced with a lengthy amendment *(see CCA 90-157a)* which establishes three class of property—(I) public utilities, (II) all property not otherwise classified, and (III) agricultural, forest and residential property—and requires that Class I properties be assessed at 30 percent, Class II at 25 percent, and Class III at 15 percent unless the State legislature provides for different assessment ratios. But in no case can an assessment go below 15 percent or above 35 percent of market value. Tax exemptions are required for U.S., State, county and municipal property and for property used exclusively for religious, educational or charitable purposes. No limit is set on additional exemptions.

No cases have yet been decided under this new provision. Nonetheless, it appears from the wording of the amendment that the legislature intended to keep intact the requirements of the old S. 217 regarding exemptions except that the exemptions mentioned above are mandatory. The courts interpreted the earlier S. 217 to give the legislature virtually complete discretion in deciding what property could be exempted from taxation. In *State v. Birmingham Southern Railway Co., 182 Ala. 475, 62 So. 77 (1913)*, the Alabama Supreme Court described the legislature's power to include:

> . . . the power to select for taxation only real estate with a resulting exemption on personalty, and vice versa. And if either class may be exempted, . . . both may be exempted. And if both are exempted, what becomes of the general tax? . . . This demonstrates to a certainty that, so far as mere power is concerned, the Constitution has left in the legislature the absolute power to nullify all taxation and destroy all sources of tax revenue.

This passage was dictum, since that case dealt with the legislature's power to authorize the valuation at a percentage less than 100 percent for all property. Nonetheless, it has been quoted and cited in more recent cases. *(See, for example, State v. Alabama Power Co., 254 Ala. 327, 48 So.2d 445 (1950).)* However, few cases challenging the validity of specific exemptions have arisen, perhaps because of the broad language just quoted, but also because the legislature has enacted few exemptions beyond ones applying to religious, charitable and educational institutions. Other exemptions include government property, specific items of household personal property, the property of scientific, literary, and fraternal organizations and partial exemptions for the aged ($5,000), the blind ($12,000) and for incompetent veterans ($3,000). *(See Title 51, ch.2,a-k.)*

A relatively recent case approved an exemption for the property of non-religious educational institutions only *(State v. Alabama Education Foundation, 231 Ala. 11, 163 So. 527 (1935).)* The court saw the legislature's power to create exemptions for educational institutions as derived not only from S. 217 but also from the "inherent right of the legislature to make such exemptions." The court proceeded to judge the exemption by the reasonableness standards of the U.S. 14th Amendment and its Alabama constitution equivalent. *(Art. I, SS 1 and 2.)* Since this case and *State v. Ala. Power Co., supra*, however, no cases significantly involving the validity of exemptions have been decided.

From these precedents it can only be concluded that the Alabama courts view the legislature as having complete power to create exemptions, subject only to the constraint of reasonableness under the U.S. 14th Amendment and its Alabama equivalent. Hence, it can be said with some confidence that a State property tax on nonresidential property would be held to be constitutional. But it must be remembered that this conclusion is derived from dicta in early cases. The Alabama courts have never decided a case involving an exemption of the magnitude of all residential property in the State.

b. Establishing a limited property tax

The same cases that lead to a conclusion that residential property can be exempted from a general property tax, also lead to a conclusion that the legislature could establish a limited property tax. *(In particular, see State v. Birmingham Southern Railway Co., supra.)* The Alabama courts have never interpreted Sections 211 and 217 as requiring a general property tax. *(See State v. Hooper, 141 Ala. 111, 37 So. 662 (1904).)* Thus, a limited tax could constitutionally be enacted.

c. Can residential property be classified separately within a general property tax system and be valued or taxed at a zero rate?

This theory for excluding taxation of residential property is clearly prohibited by the new amendment to Section 217, *supra*. That amendment allows the legislature to place residential property in a class along with forest and agricultural property. But the legislature cannot assess property in that class at less than 15 percent of fair market value. And under S. 211 all property (regardless of S. 217 classifications for valuation purposes) must be taxed at the same rate. *(See, e.g. Phoenix Carpet Co. v. State, 118 Ala. 143, 22 So. 627, (1897).)*

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2. Statutory problems in establishing a State property tax on nonresidential property.

If a State property tax on nonresidential property is constitutional, few statutory problems would be encountered in revising the State tax system. Alabama already uses a statewide property tax *(see Title 51 generally)* but the tax does not produce much revenue. In 1971 the State collected $24 million in property taxes, only 2 percent of total state revenue collections. Nonetheless, the statutory framework exists. Assessments are made by municipal and county officials *(T.51, Ch. 30,78,87)*. Taxpayer appeals are taken to each county's Board of Equalization *(T.51, Ch. 55,104)*, whose decisions are directly reviewable by the State courts *(T.51, Ch. 109)*. The State Department of Revenue is charged with the duty to supervise local assessments and to equalize assessments for State tax purposes and has the power to alter individual assessments and order reassessments generally *(T.51, Ch. 131)*. This administrative structure could be utilized to implement a State property tax on non-residential property without statutory change as long as the State Department of Revenue closely supervised local assessing practices.

II. Constitutional problems in limiting property tax use to taxation of land only.

If the interpretation of precedents presented in I.B. above is correct, Alabama could enact a system of site value taxation in either of two ways. It could exempt all improvements from taxation, which should be constitutional under the court's statements in *State v. Birmingham Southern Railway, supra*. Or the legislature could abolish the present general property tax and enact a new system of site value taxation. Since the courts have stated (as dicta) that a limited property tax can be established *(see, e.g., State v. Hooper, supra)*, such an enactment should also be constitutional. Regardless of which procedure is preferred, the cases that have been decided by the Alabama Supreme Court give every indication that the resulting site value taxation system would be constitutional.

III. Problems with obtaining property tax relief through an income tax credit to low-income taxpayers.

A. Constitutional problems with the property tax uniformity provisions.

1. Are low income exemptions allowed?

Presently Alabama has a homestead exemption of $2,000 in valuation for all homeowners *(T.51, Ch.15)*. It also has larger exemptions for the elderly, the blind and incompetent veterans *(T.51, Ch.2)*. None of these exemptions has been challenged in the courts. According to the Alabama Supreme Court in *State v. Alabama Education Foundation, supra*, such exemptions are constitutional if they meet the standards of reasonableness of the U.S. 14th Amendment and its Alabama equivalent *(Art. I, SS 1 and 2)*. A well designed system of income tax credits for property tax payments by low-income taxpayers should have no difficulty meeting those standards.

2. Can the credit be characterized as a reasonable abatement?

Alabama has not adopted any legal doctrines of granting property tax abatements because of inability to pay the tax. A tax payment is reduced only in cases of over-assessment and then only through a valuation reduction. *(See T.51, S.30-109.)*

B. Constitutional problems with income tax provisions.

Alabama has an income tax with graduated rates beginning at 3 percent and going up to 5 percent. Amendment 25 to the State constitution explicitly re-classified the income tax as a non-property tax, thus ending the requirement that it conform to the uniformity provisions of S. 211 and S. 217. *(See Eliasberg Bros. Mercantile Co. v. Grimes, 204 Ala. 492, 86 So.56 (1920).)* Thus it is subject only to the requirements of reasonable classifications and exemptions which stem from Article I, Sections 1 and 2 of the Alabama constitution and the 14th Amendment of the U.S. Constitution. *(See, e.g., State Tax Commissioner v. Nachman, 233 Ala. 628, 173 So. 25 (1937), which held that the State's sales and use taxes were subject only to these requirements.)* Again, a well designed credit system can easily meet these tests.

C. Statutory problems in enacting an income tax credit for low income taxpayers.

Since we have concluded that the credit system will probably be upheld irrespective of whether it is characterized as a property tax exemption or an income tax exemption, the credit system need not be designed with an eye toward a proper characterization under one of these taxes. Thus, no significant problems should be encountered in drafting the necessary legislation. A simple addition to the present State income tax statute should suffice.

California

I. Problems in limiting property tax use for education to State taxation of nonresidential property.

A. Problems in limiting local property tax use to non-educational expenditures.

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1. Constitutional problems

The California constitution presents no barriers to limiting local property tax use to non-educational expenditures. Local governments are not constitutionally required to finance education programs out of property taxes. The State's Home Rule Amendment permits local government to institute non-property taxes unless expressly prohibited by State legislation (Art. 13, S. 37). Under legislative authorization most municipalities have enacted local sales tax supplements of 1.25 percent to the State sales tax *(Revenue and Taxation Code, S.7200 et.seq.)*, although none of the proceeds presently go to school districts. The legislature has prohibited local governments from establishing local income taxes *(Revenue and Tax Code, S.17041.5)*, but nothing in the California constitution prohibits the use of either local sales taxes or income taxes to fund education.

2. Statutory problems

Given the unavailability of local income or sales tax revenues to local school districts, school expenditures are presently funded through a mixture of local property tax revenues and State aid. In 1968-69 local property taxes provided 56 percent of all school funds and State aid added 36 percent. *(California Legislative Analyst, Public School Finance, part I, 1970, p.5.)* State aid is distributed partly through a flat grant of $125 per pupil to each district, with the rest of the aid given on an equalization basis. *(See Education Code, SS.17751, 17801, 17702.)*

Some alteration of this statutory arrangement would be required if local property tax funding of education were to end. The State could, for example, easily permit local communities to use sales tax revenues or to establish a local income tax to provide some local funding for education. Also the State aid framework exists through which the State could accept a greater role in funding local education expenditures.

B. Problems in establishing a State property tax on nonresidential property only.

1. Constitutional problems

a. Exempting residential property from a general property tax.

California's constitution contains two different provisions which determine what exemptions are permissible. Article 13, Section 1 states that except as otherwise provided in the constitution, "all property in the State, not exempt under the laws of the United States, shall be taxed in proportion to value." Section 14 of Article 13 permits the separate classification of personal property and taxation of it at a lower rate than real property or its exemption from taxation. Other sections of Article 13 exempt religious, hospital and charitable property (S.1c), cemeteries *(S.1b)* property used exclusively for education *(S.1a)*, among others, provides for a $100 minimum exemption of personal property for each household plus a $750 minimum exemption for the taxpayer's principal dwelling if not entitled to a veteran's exemption.

The California courts have interpreted these provisions to require that the legislature cannot authorize any exemptions not specified in the constitution. *(See, e.g., Crocker v. Scott, 149 Cal. 575, 87 Pac. 102 (1906).)* Thus, without question residential property could not be exempted from a general property tax in California unless a constitutional amendment were passed.

b. Establishing a limited property tax.

As described above, Art. 13,Sl requires that "all property" not exempted by the State constitution or by Federal law must be taxed. Hence the constitution's language clearly prohibits the institution of a limited property tax. The cases uphold this reading of the Constitution. *(See, e.g., People v. McCreery, 34 Cal. 432 (1868), and 14 Opinion of the Attorney General 246.)*

c. Can residential property be classified separately within a general property tax system and be valued or taxed at a zero rate?

Section 37 of Article 13 states that "all property subject to taxation shall be assessed at its full cash value." Although this language clearly leads to the conclusion that all property in California except personal property under Art. 13, S. 14 must be assessed at 100 percent of market value, the California Supreme Court has not so interpreted the constitution. Rather the court has consistently held that fractional assessment is allowed, on the theory that the constitutional provision must be read in light of the statutes and practices at the time the constitutional provision was adopted. Since at that time fractional assessments were the normal practice, the court has held they are constitutionally permissible. *(See, e.g., Southern Pacific Land Co. v. County of San Diego, 183 Cal. 543, 191 Pac. 931 (1920), and Blinn Lumber Co. v. County of Los Angeles, 216 Cal. 474, 14 p.2d 512 (1932), both decided before the addition of the "full cash value" provision to the Constitution.)* Thus the court recently upheld a statute requiring that all property (including personal property) be assessed at a percentage between 20 percent and 25 percent publicly announced by local assessors before each assessment period. *(Revenue and Taxation Code, S401.)* In that case, *Sacramento County v. Hickman*, 66 Cal.2d 841, 428 Pac.2d 593

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(1966), the court held that fractional assessments are constitutional as long as all real property is assessed at the same ratio to market value and as long as personal property is assessed at a ratio equal to or less than the real property ratio.

Thus, although the California courts have not followed the literal wording of the California constitution regarding assessments, the cases do make clear that no separate classes of property will be allowed among different types of real property. Hence, residential property could not constitutionally be separately classified.

Uniformity of nonproperty taxation is required in California within classes only, under a constitutional provision that all laws of general nature shall have a uniform operation. *(Art. I, S.11; see Newhouse 105 et. seq.)* However, a local motor vehicle license tax has been held to be a property tax.*(Flynn v. San Francisco, 18 Cal.2d 210 (1941).)* Although a corporate franchise tax based on capital stock has been held to be a nonproperty tax *(Kaiser Land v. Curry, 155 Cal. 638 (1909),)* there is no ground for believing that a State tax on nonresidential property would be regarded as a nonproperty tax.

2. Statutory problems in establishing a State property tax on nonresidential property.

Because a State property tax limited to nonresidential property is unconstitutional in California, the question of statutory problems involved in establishing such a tax is not reached.

II. Constitutional problems in establishing a system of site value taxation.

Because the California constitution requires that all property not exempted in the constitution be taxed and because the constitution forbids the imposition of a limited property tax, a system of site value taxation could be instituted only through a constitutional amendment.

III. Problems in obtaining property tax relief through an income tax credit to low-income taxpayers.

A. Constitutional problems with the property tax uniformity provision.

1. Are low-income exemptions allowed?

Although the California constitution does not permit a property tax exemption for low income taxpayers, it does permit a homestead exemption which the legislature can set at any amount not less than $750 in valuation. *(See Art. 13, S.ld.)* However, this exemption must apply to all homeowners except those on public assistance, regardless of their income, and must be measured in terms of a valuation reduction, not a reduction in property tax payments.

Thus, if the courts viewed the tax credit as a part of the property tax rather than the income tax and thus subject to the property tax uniformity provisions of the constitution, the credit would not be constitutional. It would be if viewed as part of the income tax.

2. Can the credit be characterized as a reasonable abatement?

In California, property tax abatements are granted only for over-assessments based on overvaluation. *(See Revenue and Taxation Code, Sections 400 et. seq.)* Neither the statutes nor any cases discuss inability to pay as a basis for granting an abatement of property taxes due.

B. Constitutional problems with the income tax provisions.

Article 13, Section 11 permits an income tax to be established "in such cases and amounts and in such a manner as shall be prescribed by law." Under this authorization the legislature has established an income tax with graduated rates from 1 percent to 11 percent, *(see Revenue and Taxation Code, S.17941)* and with personal exemption tax credits of $25 per taxpayer and $8 for each dependent *(S.17054)*. The law makes no mention of refunds for credits exceeding tax liability. The California Supreme Court has not been forced to decide whether Article 13 Section 11 requires that any income tax provisions meet a constitutional standard more strict than that of reasonableness (embodied in the U.S. 14th Amendment and California's Article 1). But given the latitude which the constitution's wording appears to give the legislature, it is highly doubtful that the court would subject any income tax provision to a more strict test.

Thus, if the courts see the tax credit for property tax payments as an income tax provision, they would probably uphold it. However, if the credit can produce refunds, there is the possibility that a court may not see the credit as merely an income tax provision, but as a violation of property tax uniformity requirements. Against this possibility a court may be urged to accept the refund feature as a logical extension of the income tax to the so-called negative income tax.

Illinois

Illinois is unique among the six states under study because it adopted a new constitution, the Constitution of 1970, which went into effect on July 1, 1971. This constitution substantially altered the revenue sections of the old Constitution of 1870. No cases challenging the new revenue sections have reached the Illinois Supreme Court, and no reported lower court decisions have been found. Thus the analysis

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presented here is based on a linguistic interpretation of the relevant provisions, aided by a commentary annotated to the Smith-Hurd edition of the new constitution and by Illinois court interpretations of provisions of previous constitutions. The recommendations contained in the *Report to the Constitutional Convention of the Committee on Revenue and Finance* were accepted by the convention with several significant changes.

I. Problems in limiting property tax use for education to State taxation of nonresidential property.

A. Problem in limiting local property tax use to non-educational expenditures.

1. Constitutional problems

The 1970 constitution presents no apparent barriers to ending local property tax financing of education. It charges the State with responsibility for providing "an efficient system of high quality public education institutions and services" which shall be free through the secondary level. *(Art. 10, S.1.)* It also gives the State "primary responsibility for financing the system of public education." *(Art. 10, S.1.)* How broadly the constitutional convention desired this latter provision to be interpreted is not known.

Preventing local property tax financing of education does not rule out any local funding of educational expenditures. The 1970 constitution allows school districts to enact non-property taxes after first obtaining approval of the General Assembly. *(Art. 7, S.8.)* Absent such legislative approval, school districts would not be able to finance education except through property taxes.

2. Statutory problems

School expenditures are presently funded by a combination of State aid and local property tax revenues. *(See Ill. Ann. St., Ch. 122, S. 10,11,17,18, 32, and 34.)* The State has established a Common School Fund to which it appropriates moneys each year. *(Ch. 122, S.18.)* Distributions from the fund give each district general aid on a flat per pupil basis and give equalization aid to districts which exert a certain level of tax effort without generating some minimum level of funds. *(Ch. 122, S.18-8.)* In addition to the Common School Fund, a district can receive funds from the Local Government Distribution Fund. These funds can be applied to any governmental activity including schools. *(Ch. 85, S. 611, 613.)* The remaining funds for education are raised by the local property tax. Each district has a statutorily imposed maximum local tax rate for school purposes which can be exceeded only after local referendum approval. *(Ch. 122, S. 10, 11, 17, 32, and 34.)*

Some revision of this statutory framework would be necessary to accommodate a Federal program requiring that no local property tax funds be used for education. But the revisions need not be drastic. The State could allow local communities to establish non-property taxes; or the State could increase the size of either the Common School Fund or the Local Government Distribution Fund, or both, and require local districts to finance education out of these funds.

B. Problems in establishing a State property tax on nonresidential property only.

1. Constitutional problems

a. Exempting residential property from a general property tax.

The Illinois Constitution of 1970 prohibits a property tax exemption for residential property by requiring that real property taxes be "levied uniformly by valuation". *(Art. 9, S.4.)* The new constitution also provides for the abolition of all personal property taxes by January 1, 1979. *(Art. 9, S.5).* Complete exemptions to either the personal or real property taxes are permitted for "*only* the property of the State, units of local government and school districts, and property used exclusively for agricultural and horticultural societies and for school, religious, cemetery and charitable purposes." *(Art. 9 S. 6, emphasis added.)* Residential property does not fit any of these categories, and the constitution explicitly limits exemptions to the categories listed.

This conclusion is re-inforced by Illinois court interpretations of the 1870 constitutional provisions. That constitution permitted revenue to be gained by "levying a tax, by valuation, so that every person and corporation shall pay a tax in proportion to the value of his, her, or its property." *(Const. of 1870, Art. 9, S.1.)* This provision, coupled with the provision of Art. 9, S. 3 that

> The property of the State, counties and other municipal corporations, both real and personal, and such other property as may be used exclusively for agricultural and horticultural societies, for school, religious, cemetery, and charitable purposes, may be exempted from taxation.

was interpreted by the Illinois courts to require all property except that specifically exempted under Article 9, S.3 to be taxed. *(See Crane v. W. Chicago Park Commissioners, 153 Ill. 348, 38 NE 943 (1894), Peoples' Loan and Homestead Assn. v. Keith, 153 Ill. 609, 39 NE 1072 (1894), and In re St. Louis Loan and Investment Co. 194 Ill. 609, 63 NE 810 (1902).)* Thus, in spite of the fact that the 1870 constitution did not explicitly limit exemptions to those categories mentioned in it, the Illinois courts gave that

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interpretation and the 1970 constitution expressly ratifies it. Under the 1870 constitution the requirement of universality was held to preclude the taxation of land only *(59 Ill. 142)*; the exemption of securities of building and loan associations *(153 Ill. 609)*; State assessment of stock of certain corporations *(248 Ill. 141; 236 Ill. 149)*; and the exemption of parsonages *(232 Ill. 158)*.

b. Establishing a limited property tax

Even if residential property cannot be exempted from a *general* property tax, it is possible that the State could be permitted to establish a *limited* property tax, which would tax only nonresidential property. The Illinois courts consistently interpreted the Constitution of 1870 as permitting only a general property tax, given the wording of Art. 9, S. 1 that "every person and corporation shall pay a tax" on his property. *(People v. Cook Co., 221 Ill. 493, 77 NE 914 (1906).)* Since the 1970 constitution only requires that real property be taxed "uniformly by valuation" without specifically mentioning that all property must be subject to the tax, it could be argued that the new provisions do not require a general property tax if any tax is enacted. Under this theory exemptions would apply only to those categories of property which would be subject to the limited property tax. Whether the court would accept this argument is, of course, not known. It does run contrary to the exemption provisions of Art. 9, S. 5 which imply that the property tax must cover all property except those specifically exempted. Also the uniformity provision itself *(Art. 9, S.4)* can be interpreted as requiring a general tax.

If the courts do not see S. 4 or S. 5 of Art. 9 as prohibiting a limited property tax, presumably such a tax could be established on "reasonable" categories of property. A clue to how the Illinois courts would define such reasonable categories can be found in *Lake Shore Auto Parts Co. v. Barrett,—Ill. 2d—(1971)*. In that case the Illinois Supreme Court struck down an amendment to the 1870 constitution (passed before the 1970 constitution) barring personal property taxes on individuals. The court held that the amendment was contrary to the Equal Protection clause of the 14th Amendment of the U.S. Constitution because it did not meet the test of reasonableness under that clause. Under the court's construction of the Federal equal protection test, only classes based on different kinds of property, and not classes based on different kinds of property owners, could meet the Federal test.

A property tax limited to nonresidential property would presumably meet this criterion; all nonresidential property, whether owned by an individual or a corporation, would be taxed. Thus, *Lake Shore* can be met. But the court would no doubt require that, beyond the holding in *Lake Shore*, the different kinds of property taxed must be determined on some reasonable basis. Whether a tax on all nonresidential property would meet this test cannot be predicted. Since the 1870 Constitution clearly prohibited limited property taxes, no Illinois cases have discussed what might constitute reasonable classes of property for purposes of a limited property tax.

c. Can residential property be classified separately within a general property tax system and be valued or taxed at a zero rate?

The 1970 constitution, unlike the 1870 constitution, does permit "reasonable" classifications of property for purposes of valuation, but only within counties with a population over 200,000. *(Art. 9, S. 4.)* This provision precludes any classification in counties with a population less than 200,000; thus, a statewide classification system would be precluded. Moreover, even in those counties where classification is permitted, no property can be assessed at less than 2/5ths the value of the highest class of property. *(Art. 9, S. 4(b).)* This minimum prevents assessment of any property at a zero value.

The requirement of proportionality applies only to property taxes, but the list of occupational, use and license taxes whose validity has been sustained under the 1870 constitution offers no encouragement to the belief that a State tax on nonresidential property would qualify unless it could be transmuted into some sort of general business or occupational tax. *(See Newhouse 128.)*

2. Statutory problems in establishing a State property tax on nonresidential property.

If a State property tax on nonresidential property were constitutional, few statutory problems would be encountered in enacting the tax system. Presently local assessors (employed by counties or townships) assess all property except that of railroad companies and certain corporate capital stock. *(Ill. Ann. Statutes, Ch. 120, S. 498.)* Appellate tax review boards exist on the county level for all counties. *(Ch. 120, S. 489-492.)* A State tax appeals board has jurisdiction only over appeals from counties less than 1 million population. *(Ch. 120, S. 592. 1.)*

Thus property assessment and review responsibility is given to both local and State government. Also, the State Department of Revenue has broad powers and duties to supervise local assessments *(Ch. 120, S. 611 (1))*, to prescribe general rules and regulations for local assessors *(Ch. 120, S. 611 (3))*, to investigate assessments of any county or assessing district *(Ch. 120, S. 611 (7))*, and to order reassessment of any district or county it finds to be inequitably assessed *(Ch. 120, S. 621)*. Within this statutory framework the State could easily create a sys-

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tem of thorough review of local assessments by the Department of Revenue. With such review the State could then rely, if it wishes, on equalized local assessments in administering a statewide property tax.

In fact, the State presently has the power to establish a statewide property tax on all property to raise revenues either for general use *(Ch. 120, S. 634)* or specifically for school financing *(Ch. 120, S. 635)*. These statutes could easily be amended to establish a State tax on non-residential property only. With that change alone, the State would have an adequate statutory framework to establish and administer a State property tax on non-residential property.

II. Constitutional problems in establishing a system of site value taxation.

For the reasons discussed in I, it is unlikely that site value taxation could be validly enacted in Illinois.

III. Problems with obtaining property tax relief through an income tax credit to low income taxpayers.

A. Constitutional problems with the property tax uniformity provisions.

1. Are low-income exemptions allowed?

The 1970 Illinois constitution specifically allows homestead exemptions and credits for renters. *(Art. 9, S. 6.)* But it is not clear that such an exemption limited to low-income homeowners and renters only would be constitutional. It appears that the constitution writers intended such an exemption to be constitutional. According to the Smith-Hurd commentary on the new constitution, the convention at first rejected a proposal to allow homestead exemptions only for the elderly poor. Instead the broader clause was inserted apparently to allow the legislature more freedom in fashioning exemptions which it felt were needed. *(Ill. Ann. Statute Vol. 3 p. 206.)* The implication of this decision is that the constitution writers wanted to allow the legislature to create whatever homestead exemptions it felt to be reasonable. If the courts read the constitution in this way, they probably will permit homestead exemptions for reasonable classes of taxpayers, which would include exemptions for low-income taxpayers only.

2. Can the credit be characterized as a reasonable abatement?

There is no constitutional or statutory basis for permitting abatements based on some notion of inability to pay. The Illinois courts rejected theories characterizing exemptions as abatements under the 1870 constitution. In *Hoffman v. Lefnhausen, 48 Ill. 2d 323 (1971)*, the court stated that a $1,000 decrease of valuation of property held by those 65 and over could not be considered a reasonable abatement of property valuation, but was in fact a partial exemption and thus must be examined under the constitution's exemption provisions. Since the 1970 constitution and subsequent statutes have not changed any provisions regarding abatements, it is doubtful that the Illinois courts would change its refusal to characterize property tax credits or valuation reductions as reasonable abatements.

B. Constitutional problems with income tax provisions.

The present Illinois income tax (which was instituted before the new constitution was enacted) has been characterized by the Illinois Supreme Court as a non-property tax. *(Thorpe v. Malin, 43 Ill. 2d 36 (1969).)* Thus the tax is not subject to the property tax uniformity and exemption provisions; instead the tax must meet the provisions of Art. 9, S. 2, which permits "reasonable exemptions and credits" for non-property taxes. According to the Smith-Hurd commentary, this provision was primarily intended to permit sales tax exemptions for articles such as food and to allow low-income persons income tax credits for sales tax payments. *(Ill. Ann. Statutes Vol. 3, p. 185.)* Thus, this section would also seem to permit an income tax credit based on property tax payments.

However, the income tax must be non-graduated. *(Art. 9, S. 3.)* The Illinois courts could read this requirement as modifying the more general Section 2 and not allow credits on the income tax which have the effect of graduating the income tax. But, again, we cannot say with assurance whether or not the court would give this interpretation since Section 3 is new to the 1970 constitution.

In any case, the court can see a property tax payment credit on the income tax as affecting the rate of the income tax only if the court sees the credit as accruing to the income tax (but measured by property tax payments) rather than as accruing to the property tax (with the income tax system used merely as an administratively convenient method of rebating the excess property tax payments). Which way the court characterizes the tax credit may depend on how the credit is structured. If the State finances "refunds" equal to the credit for low-income persons who are not liable for any income tax at all, the court might be more likely to regard the credit as a property tax rather than as an income tax measure. Thus, the usual structure of a credit system would maximize the chances that the Illinois courts would see the credit as a modification of the property tax system rather than as a subterfuge for graduating income tax rates.

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C. Statutory problems in enacting an income tax credit for low-income property taxpayers.

Illinois has a functioning income tax, with taxable income determined by Federal adjusted gross income as modified by a number of provisions. *(See Ch. 120, S. 2-203.)* The low-income credit could easily be added to these provisions.

However, the statute must be carefully drafted to avoid two problems. First, since the credit is possibly contrary to the income tax non-graduation provisions of Art. 9, S. 3, the credit should be structured so as to maximize its chances of being viewed as not affecting the income tax requirements (as discussed above). Second, if the credit is to be justified under the property tax provisions rather than the income tax provisions, it must be structured as a homestead *exemption* for low-income persons, and not as a tax credit if it is to fall under the permitted homestead exemption section. *(Art. 9, S. 6.)* Thus, the credit must be in the form of a valuation reduction for those whose incomes are under some ceiling. The reduction could be the same for all under the ceiling or perhaps it could get larger as income decreases. But because the exemption must be on valuation and not on the amount of tax paid, the amount of the exemption could not vary as each community's tax rate varies. Perhaps reasonable classes could be established (e.g. allowing a larger valuation reduction for low-income people living in cities over 100,000 than in other communities) to mitigate the effects of this problem.

Kansas

The basic document for Kansas is the Constitution of 1859. It has remained in force with only minor changes since the State joined the Union. In general, the constitution is relatively restrictive in its provisions regarding legislative and municipal power over sources of revenues. However, the cases that have arisen under the constitution do not, in many instances, point to restrictions against the types of reforms with which the proposals prompting this study are concerned. Thus it may turn out that, in spite of Kansas' general restrictiveness, its constitution permits more of the reforms than many other constitutions under study.

I. Problems in limiting property tax use for education to State taxation of nonresidential property.

A. Problems in limiting local property tax use to non-educational expenditures.

1. Constitutional problems

The Kansas constitution would not present significant obstacles to ending local property tax financing of education. The State is given primary responsibility for providing "a uniform system of common schools." *(Art. 6, S. 2.)* However, the constitution imposes no requirements on the State to provide any school financing itself for elementary and secondary schools.

Ending local property tax financing of education does not rule out any local funding of educational expenditures. Municipalities are authorized under the State's Home Rule Amendment to levy any taxes, excises, fees and charges they choose as long as such measures are not prohibited by general law. *(Art. 12, S. 5(b).)* Thus, under an appropriate statutory structure municipalities could finance school expenditures out of non-property taxes.

2. Statutory problems

School expenditures are presently funded by a combination of State aid and local property tax revenues. The State has established a school foundation aid program which basically provides sufficient aid to insure that a specified minimum tax rate in each district will provide a certain amount of *funds per pupil. (See KAS Ch. 72, Art. 7001.)* Additional aid is given for special school purposes, such as transportation of students and special programs for the retarded. *(See, e.g., Ch. 72, Art. 405.)* All other funds for local schools must come from local property taxes. General law forbids municipalities from instituting any excise, sales or use taxes *(KAS Ch. 12, Art. 139)* or any income tax *(KAS Ch. 12, Art. 140)*; and fees and license revenues must be based on administrative costs, not on sales or income *(KAS, Ch. 12, Art. 143)*. Local school districts set their own budgets and instruct county assessors to levy whatever amounts are needed on property within the school district. *(KAS, Ch. 79, Art. 1801.)* Each school district must stay within certain statutory maximum rates; the maximum rate varies with classes of districts. *(See KAS, Ch. 79, Art. 41.)*

Although some modification of this statutory scheme would be required to accommodate a system of non-property tax financing of local education, the changes should not be difficult to enact. The legislature could remove its prohibition on local non-property taxes, thus allowing alternate methods of local taxation. Or the State could increase the funds in the School Foundation Program, distribute the funds on a flat per pupil basis, and require that school districts meet their budgets entirely from these funds.

B. Problems in establishing a State property tax on nonresidential property only.

1. Constitutional problems

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a. Exempting residential property from a general statewide property tax.

The Kansas constitution requires that the State legislature provide "for a uniform and equal rate of assessment and taxation." *(Art. 11, S. 1.)* This basic uniformity provision has been interpreted to apply only to property taxes *(see, e.g., State v. Cline, 91 Kan. 416, 137 Pac. 932 (1914), and State v. Wilson, 101 Kan. 789, 168 Pac. 679 (1917))*, even though the language of the constitution makes no distinction between property and non-property taxes. The same section of the constitution provides for a number of exemptions for taxation:

> but all property used exclusively for State, county, municipal, literary, education, scientific, religious, benevolent and charitable purposes, and all the household goods and personal effects not used for the production of income, shall be exempted from taxation. *(Art. 12, S. 1.)*

This section has remained unchanged since the adoption of the 1858 constitution, except that before 1963 household goods and personal effects were exempt only to the extent of $200 in valuation.

The Kansas courts have interpreted this exemption provision to require that exemptions must be given to the property listed. *(See, e.g., Comm'rs of Ottawa v. Nelson, 19 Kan. 234 (1877).)* But the court has not limited exemptions to those specified; other categories of property may be exempted by legislation if certain tests are met.

The primary court requirement for upholding additional, nonspecified exemptions is that some public interest be served. In *Sumner Co. v. Wellington, 66 Kan. 590, 72 Pac. 216 (1903)*, the Kansas Supreme Court held that "the Constitution does not forbid the exercise of the inherent power of the legislature to exempt property from taxation when it may conduce to the public welfare." The legislature, not the court, is to determine what exemptions are proper. "Within the scope of legislative power, the legislature itself is judge of what exemptions are in the public interest and will conduce to the public welfare." *(Gunkle v. Killingsworth, 118 Kan. 154, 233 Pac. 803 (1925).)* Court review determines only if the legislature's action was "devoid of a rational basis." *(State v. Board of Regents of Kansas, 167 Kan. 587, 207 Pac.2d 373 (1949).)* Under this test, which is the same as the reasonableness test under the U.S. Constitution's 14th Amendment equal protection clause, an exemption of residential property would have a good chance of passing court scrutiny.

However, in earlier cases the Kansas supreme Court discussed an additional requirement beyond serving the public interest: that the exempted property should not constitute a substantial portion of total taxable property. In *Wheeler v. Weightman, 96 Kan. 50, 149 Pac. 977 (1915)*, the court described this requirement at length:

> No one could successfully contend that the Constitution permits the legislature to exempt all real estate in the state from taxation and so cast the burden of sustaining the government on personal property alone. No one could successfully contend that all personal property in the State may be exempted from taxation or that all property belonging to corporations or a class of corporations, like railroads, could be exempted. To do so would manifestly violate the rule of uniformity and equality. *(96 Kan. 67, 68.)*

Language such as this appears in a number of early exemption cases. *(See, e.g., Baird V. Joslin, 116 Kan. 615, 227 Pac. 543 (1924).)* But in none of these cases does any additional analysis appear. And in none of the cases, including *Wheeler v. Weightman*, was a proposed exemption struck down because it did not meet this requirement.

If the Kansas courts follow the requirement as expressed in *Wheeler v. Weightman* and other early cases, an exemption for residential property would quite clearly be held unconstitutional even though it met the public interest test. But whether or not the courts will follow this requirement is not known. The requirement was clearly dictum in those cases in which it appears. The Supreme Court has not mentioned it in an exemption case since 1924 (but no cases which have arisen since then have involved substantial amounts of property). There is, thus, no way of telling whether the court will hold such an exemption constitutional. The court could go either way.

b. Establishing a limited property tax.

The Kansas courts have interpreted the exemption provision of the Kansas constitution *(Art. 12, S. 1)* to require that all real and personal property except that specifically exempted by law must be subject to property taxation. *(See, e.g., M. & M. Ry. Co. v. Champlin, 37 Kan. 682, 16 Pac. 222 (1887).)* Thus Kansas cannot establish a limited property tax, and the only method of excluding any property from the tax system is through exemptions.

c. Can residential property be classified separately within a general property tax system and be valued or taxed at a zero rate?

Despite the relative liberality of the Kansas provision regarding exemptions, the Kansas courts have consistently held that the uniformity provision of Art. 11, S. 1 of the consitution forbids any classification of property for valuation or tax rate purposes.

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(See State ex rel. Arn v. Cline, 91 Kan. 416, 137 Pac. 932 (1914), Wheeler v. Weightman, supra.) A few narrowly drawn exceptions have been made for unorganized areas (where the court permitted the State to assess and tax railroad properties—without taxing all of the prairie lands, *(Francis v. Atchison, T. & S. F.R. Co., 19 Kan. 303 (1877))*, and for railroad rolling stock (which the courts allowed to be taxed on a statewide, rather than a local basis, since the situs of the property could not be determined, *Associated Ry. Equipment Owners v. Wilson, 167 Kan. 608, 208 P.2d 604 (1949)*). These exceptions, however, do not produce any relevant theories for arguing that separate classification of residential property is constitutionally permissible.

In practice the Kansas courts have permitted substantial deviation from the requirement of uniform assessment by imposing numerous roadblocks to any effective challenge of assessing practices. The courts have repeatedly stated that "mere excessive assessment or mistaken assessment" does not present a cause of action. Rather the taxpayer must show that the assessor fraudulently or intentionally overassessed the property. *(See, e.g., Addington v. Bd. of County Commissioners, 191 Kan. 528, 38 P.2d 315 (1957).)* Later cases indicate that a "gross and arbitrary discrepancy" in assessment, if proved, will constitute constructive fraud and relief will be granted to a taxpayer with a high assessment. *(Beardmore v. Ling, 203 Kan. 803, 457 P. 2d 117 (1969).)* But even gross discrepancies are difficult to prove in court because of a judicial reluctance to accept the conclusions of private assessment ratio studies. *(See, e.g., Cities Service Oil Co. v. Murphy, 202 Kan. 282, 447 P.2d 791 (1968) and Sebits v. Jones, 202 Kan. 435, 449 P.2d 551 (1968).)* Moreover, the relief granted is limited to tax abatement to the complaining taxpayer; the courts refuse to enjoin the general collection of taxes. *(See Harshberger v. Bd. of County Commissioners, 201 Kan. 592, 442 P.2d 5 (1967).)*

For all of these reasons, the Kansas courts make it relatively easy for local assessors to informally assess different types of property at different values. However, even informal assessment of residential property at zero valuation would no doubt be seen as a "gross discrepancy" in relation to the assessment of non-residential property. The courts would quickly strike it down.

2. Statutory problems in establishing a State property tax on nonresidential property.

If the constitutional problems of a State property tax on nonresidential property were overcome, such a tax could be set up with few statutory changes. Under the present statutory structure, assessments are made by county assessors. *(Ch. 79, S. 1411 (a).)* Each local governmental unit, including school districts, notifies the county assessors of the amount of revenues needed for their purposes and the county assessors levy the tax accordingly *(Ch. 79, S. 1801)*, adding on county expenditures to the amount to be taxed for each local community in the county (Ch. 79, S. 1802).

A State property tax is authorized by State law for various purposes (e.g., for State educational institutions, *Ch. 76, S. 6b01 and S. 6b02*). Thus, the State Appellate Tax Board and the State Director of Property Valuation have extensive power to alter and equalize local assessments. The Director of Valuation is specifically instructed to require local assessing officials to assess all property at 30 percent of fair market value. *(Ch. 79, S. 1404 (1).)* He has the power to prosecute local officials violating this requirement. *(Ch. 79, S. 1404(3).)* Also, he himself is subject to prosecution for willingly or knowingly failing to assess properly. *(Ch. 79, S. 1439.)*

With this statutory framework few changes would be required to establish an effective system of State control over local assessments. Thus a State tax on nonresidential property could easily be administered through use of local assessments as supervised by State officials.

II. Constitutional problems in establishing a State or local system of site value taxation.

The only theories under which site value taxation could arguably be consitutional are the same theories presented for establishing a nonresidential property tax. The prospects of judicial acceptance of any of these theories for purposes of nonresidential property tax were viewed as dim; the same holds true for a property tax on land only.

III. Problems with obtaining property tax relief through an income tax credit to low-income taxpayers.

A. Constitutional problems with the property tax uniformity provisions.

1. Are low-income exemptions allowed?

The constitution makes no specific provision for the exemption of low-income property owners, and the legislature has never attempted to institute one. Thus, a case has not been litigated on this point. However, applying the general judicial standards for permitting exemptions (i.e. public interest, and, perhaps, a non-substantial portion of taxable property), good arguments can be made in favor of the constitutionality of low-income exemption. Under the public interest test, the court only requires that it be able to perceive some rational basis in the legislature's conclusion that an exemption is in the

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public interest. This is the same test which the court applies to non-property taxation schemes. *(See, for example, State v. Wilson, 101 Kan. 789, 168 Pac. 679 (1917).)* And the Kansas courts have under that test upheld progressive rates in State excise taxes. *(See In re. Martin, 62 Kan. 638, 64 Pac. 43 (1901).)* Thus, if progressive rates can rationally be seen as in the public interest, it would be difficult for the court to conclude that low-income exemptions cannot be similarly viewed.

However, the possibility of a low-income exemption being prohibited as exempting a substantial portion of taxable property *(See pp. 5-6, supra)* does exist. But because this requirement (if the court will apply it) has not been discussed in recent cases and was not discussed with precision in early cases, and because there is little likelihood that low-income people in Kansas own or occupy a substantial portion of taxable property, this restriction may not be a significant obstacle to a low-income property tax exemption.

2. Can the credit be characterized as a reasonable abatement?

The cases examined indicate that abatements apply solely to reductions of a tax based on an overassessment. *(See Beardmore v. Ling, supra.)* No cases were discovered which discussed inability to pay as a potential reason for allowing an abatement of a tax; nor do the statutes give any basis for developing such a theory.

B. Constitutional problems with the income tax provisions.

Article 11, S. 2 explicitly provides for an income tax with graduated rates. The present Kansas income tax system has rates graduated from 0.5 percent to 5.5 percent. *(Ch. 79, S. 3202.)* All taxpayers receive a $600 exemption. *(Ch. 79, S. 3210.)* The tax credit could be seen either as a way of further increasing the progressivity of the income tax rates (which is expressly allowed by Amd. 11, S. 2 of the constitution) or as a reasonable exemption or credit. Any court review would be limited to the reasonableness of the credit. *(See Hartman v. State Comm. of Revenue, 164 Kan. 67, 187 P. 2d 939 (1947).)*

C. Statutory problems in enacting an income tax credit for low-income taxpayers.

Because Kansas has a functioning income tax system with its own schedule of deductions and exemptions separate from the Federal income tax system *(See Ch. 79, S. 3200 et seq.)*, a simple addition to the statutes would easily set up the credit system. Because the credit is likely to be upheld regardless of whether it is viewed as an income tax or a property tax measure, the problems of refunds discussed in the body of this report and in earlier appendices should be even less troublesome in Kansas.

Massachusetts

I. Problems in limiting property tax use for education to State taxation of nonresidential property.

A. Problems in limiting local property tax use to non-education purposes.

1. Constitutional problems

In Massachusetts, there seems to be no constitutional obstacle to limiting the use of the local property tax to the financing of functions other than education.

2. Statutory and practical problems

In Massachusetts, the property tax is the only source of direct local tax revenue which the cities and towns are constitutionally permitted to use to finance local government expenditures. If the cities and towns could not use local property tax revenue for education, they would have to rely entirely either on State aid for education or on direct State financing of education. Local autonomy in educational policy, already eroded by statewide regulations and standards, would certainly not be helped by either of these arrangements.

The magnitude of the financial problem for the State should not be overlooked. In fiscal 1969, Massachusetts cities and towns spent $746 million for education, 41 percent of total city and town expenditure. Of this amount about $260 million, 35 percent of local school expenditure, was financed by transfers from the State. In order to finance local education without local property tax resources, the State would have to raise close to $500 million from additional State taxes.

B. Problems in establishing a State property tax on nonresidential property only.

1. Constitutional problems of uniformity.

a. Can residential property be exempted from a general State property tax?

In practice Massachusetts has allowed exemptions only (1) by limiting the requirement of taxation to property which ought to assist in defraying the expenses of government, thus excluding property of persons who are not able to contribute *(S. 126, p. 28*)*; (2) for property in the ownership of which taxpayers may be deemed not to differ greatly, such as household furniture up to a stated value *(S. 126, p. 29*)*; and (3) for property devoted to public or

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quasi-public uses *(S. 126, pp. 29, 37*)*. A general exemption for residential property would not qualify under any of these rather narrow, if uncertain, tests. In addition, the Massachusetts Supreme Judicial Court has stated in an advisory opinion that a $5,000 homestead exemption for residents would involve an unconstitutional discrimination against corporate owners, nonresident owners and resident individuals living in rented housing. *(Opinion of the Justices, 344 Mass. 766, 181 N.E. 2d 793 (1962); see S. 126, p. 29*.)* However, a general exemption in favor of residential property would not discriminate against rental housing or nonresident owners, although it would discriminate against nonresidential property or corporations and other taxpayers.

b. If not, can residential property be classified separately and taxed at a zero rate?

In Massachusetts, the Special Commission to Develop a Master Tax Plan has concluded that in principle, "the levy of a state tax at a uniform rate throughout the commonwealth on any selected class of property, in substitution for or in addition to the local rate, violates the requirement of a uniform effective rate of taxation for all property subject to tax in the city or town." *(S. 126, p. 32*.)* By contrast, a State tax at a uniform rate on all property would be valid if based on genuine equalized valuations. *(S. 126, pp. 42-43.*)*

2. Practical and statutory problems in a State nonresidential property tax.

a. Unequal assessment among municipalities.

As in many States, the valuation of the local property tax base in Massachusetts varies widely from one community to another, not only in average approximation of true market value, but also in the degree to which each community achieves uniformity in valuing different classes of property and particular pieces of property. The uniformity provision of the Massachusetts constitution requires a uniform effective rate of taxation on all property within the taxing district; if the entire Commonwealth were the taxing district, a uniform effective rate could probably not be achieved without comprehensive changes in valuation methods. *(See S. 126, p. 43*.)*

b. Adequacy of prospective revenue.

According to the 1967 Census of Governments, in 1966 Massachusetts raised 70 percent of its real property tax revenue from nonfarm residential property. Assuming that most of the 7.3 percent of total Massachusetts property tax revenue which was derived from personal property represented nonresidential assets, Massachusetts obtained about 65 percent of its local property tax revenue from residential property, and about 35 percent from nonresidential property. Thirty-five percent of the fiscal 1969 property tax levy ($1.206 billion) amounts to $422 million, only 56.6 percent of the $746 million which the cities and towns spent for education in fiscal 1969. Since the Commonwealth already contributed $260 million to the cities and towns in aid for education in that year, however, the balance to be raised by an increase in property taxation of nonresidential property would have been $164 million—almost 40 percent above the 1969 level of such taxation and almost 70 percent of the 1969 level of the Massachusetts revenues from corporation excises. If Massachusetts had received from the Federal government $1 for every $2 of State funds distributed for local education, however, it would only have had to raise an additional $76 million from the taxation of nonresidential property in order to have the 1969 amount of $746 million available for local education.

3. If a State cannot constitutionally establish a State nonresidential property tax, are there any potential equivalent alternatives?

Among the States which permit exemptions but require a uniform rate in property taxation, only Massachusetts has an extensive doctrine on "excises" in lieu of property taxes. Massachusetts levies excises on motor vehicles (the validity of the excise was sustained in 1924 in *Opinion of the Justices, 250 Mass. 591*), trailers, mobile homes, aircraft and ships; but the corresponding exclusions of such property from the general local property tax have never expressly been held constitutional. *(See S. 126, p. 37*.)* Under Massachusetts doctrine an excise of this type cannot be sustained except on the theory of a "privilege," and a tax on a "common right" is regarded as a property tax. *(S. 126, p. 55*.)* It is hard to imagine that a State tax on nonresidential property would not be regarded as a property tax, or that a general tax on business would be treated as a tax on a "privilege" under Massachusetts doctrine. While the existing Massachusetts excise tax on corporations includes a property measure of tax liability which could be altered, such a tax would not be equivalent to a tax on all nonresidential property. Only property owned by corporations would be included.

II. Problems with differential taxation of land and improvements.

*Reference is to Commonwealth of Massachusetts, *Constitutional Limits of the Tax Power*, First Report of the Special Commission to Develop a Master Tax Plan, Senate No. 126 of 1970 (September 1969).

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A. Constitutional problems

Although there are no Massachusetts cases on an express distinction between land and improvements, and the decision that a homestead exemption would be invalid could apply only to a certain class of improved land *(S. 126, p. 29*)*, the specific differentiations which have been held invalid in Massachusetts have all been struck down by application of a general rule against differentiation of any but the most limited kinds. The uniformity provisions of other States have a similar general application. The analysis of the validity of differentiation between residential and other property is therefore valid for any distinction between land and improvements, so that site value taxation in Massachusetts would be likely to be held unconstitutional.

III. Problems with obtaining property tax relief through an income tax credit to low-income taxpayers.

A. Constitutional problems with property tax uniformity provisions.

1. Is a low-income exemption allowed?

As stated in the main body of this report, 21 States offered some type of low-income relief under their property taxes in 1969, but only to persons who were elderly, widowed or disabled. *(See S. 1281**, pp. 255 et seq..)* Massachusetts is among those giving low-income relief against property taxes to the elderly. There seems to be no serious obstacle to granting property tax relief to low-income taxpayers, without regard to age or disability.

2. Can a credit against income tax liability be characterized as a reasonable abatement?

No special problems appear to be posed in Massachusetts under this rubric. *(See the discussion in the next paragraph.)*

B. Constitutional problems with income tax uniformity provisions.

Does the credit violate the Massachusetts prohibition against graduated rates? Massachusetts is one of five states with a broad-based income tax without graduated rates. The Massachusetts income tax is levied under a 1915 constitutional amendment which requires that the tax on income derived from the same class of property be levied at a uniform rate throughout the Commonwealth; authorizes the General Court to grant "reasonable exemptions and abatements"; and authorizes the application of different classes of property. *(See S. 126, pp. 25, 47-48*.)*

If a credit were given for the excess of property

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*See reference on page 215.

**Commonwealth of Massachusetts, *The Massachusetts Revenue Structure* (Second Report of the Special Commission to Develop a Master Tax Plan, Senate No. 1281 (1971).

Table G-1

Comparison of Tax Value and Residual Tax Liability for Property Tax Exemption and Alternative Income Tax Credit Plans

	Property Tax	Income Tax	Total
Base	v	x	—
Rate	r	s	—
Property tax exemptions:			
Exempt amount	e	—	—
Tax value	re	—	—
Residual liability	r(v-e)	sx	r(v-e)+sx
Income tax credit for excess of property tax over k percent of income:			
Tax value	—	rv-kx	rv-kx
Residual liability	rv kx*	sx-(rv-kx) =x(s+k)-rv	x(s+k)
Income tax credit for q percent of property tax:			
Tax value	—	rv(l-q)	rv(l-q)
Residual liability	rv qrx*	sx-rv(l-q)	sx+qrv

*Residual liability if credit subtracted from property tax

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tax liability over a fixed percentage of income, and were applicable wholly to income of the same class, the result—taking the income tax alone—would be equivalent to adding the percent to the income tax rate and giving a credit for the entire amount of the property tax. *(See Table G-1.)* A taxpayer entitled to the credit would in the first place be taxed at a higher marginal rate than other taxpayers, and secondly, would receive a credit whose value was wholly determined by the local tax rate and the value of his property. It is not possible to say with any confidence that such a credit would be regarded as a reasonable abatement. A variable schedule of personal allowances sustained by the Massachusetts Court differentiated only according to personal legal status and amount of total income. *(Opinion of the Justices, 270 Mass. 593, 170 N.E. 800 (1930); see S. 126, p. 48*.)* Massachusetts also has a small credit in a fixed amount for low-income taxpayers, intended to take account of sales tax paid; its validity has never been judicially considered, however. The proposed credit would differ from the present personal allowance not only in having no relation to the income or the income tax rate, but in varying according to the location of the property. Further differentiations among taxpayers would arise if the credit were incompletely used against tax on one class of income and were carried forward to another tax imposed at a different rate, although differentiations resulting from the carry-over of unused fixed personal allowances have not been challenged.

If credit were given for a fixed percentage of the property tax liability, the marginal rate of the income tax would remain unchanged, but the amount of the credit again would vary according to the value of the property and the tax rate of the community.

It is interesting to note that if the property and income taxes are regarded as a system, the first type of credit eliminates the property tax entirely, leaving an income tax levied at a uniform rate consisting of the statutory rate plus the chosen percent of income. Taxpayers entitled to the credit would pay income tax at the same rate as other taxpayers, but would be paying in effect an in-lieu property tax bearing no relation to the value of their property. From this global point of view, the second type of credit is perhaps more plausible: taxpayers entitled to it would be paying income tax at the normal rate plus that part of the local tax which was credited against income tax liability.

Finally, even assuming that a reduction of positive income tax liability, measured by property tax liability, would be a reasonable abatement, a refund for any excess of such a credit would certainly be a departure from the more usual concept of an income tax, to say nothing of the income tax concepts embodied in the Massachusetts 1915 amendment.

Against these doctrinal uncertainties must be set the realities of political pressure for property tax relief, offered here in a form which does not appear unreasonable to those who are familiar with the doctrine, and the fact that the problem is probably peculiar to Massachusetts.

New York

I. Problems in limiting property tax use for education to State taxation of nonresidential property.

A. Problems in limiting local property tax use to non-education expenditures.

1. *Constitutional problems*

No constitutional problems are presented by ending local property tax financing of education. Under the New York constitution education is the primary responsibility of the State legislature, not local governments. The legislature is required to "provide for the maintenance and support of a system of free common schools, wherein all the children of the state may be educated." *(Art. 11, S. 1.)*

Local governments could have a role in financing schools even if local property tax financing were ended. New York's Home Rule constitutional provision allows local governments to enact any form of taxation after obtaining authorization from the State legislature. *(Art. 9, S. 2.)* Thus, the State legislature could work out any number of plans for local non-property tax financing of education.

2. *Statutory problems*

Local school expenditures are presently financed from two main sources (in addition to Federal aid) The State government finances about 55 percent; most of the remaining 45 percent is financed out of local property taxes, although local sales taxes can be used toward education financing in all communities, and New York City's income tax can be used for education expenditures. *(See N.Y. Tax Law, Art. 9, 29, S. 1201 and S. 1203.)*

Some modification of this statutory system would be required to end local property tax funding of education. The local sales taxes, which are presently functioning in 19 cities and towns and 41 counties, would need to be enacted by the remaining communities if each community is to take some part in funding education. This change, plus a substantial increase in State aid, could provide a satisfactory alternative. Also, given the flexibility of New York's constitutional provisions regarding State and local taxation, the State legislature could easily go beyond

*See reference on page 215.

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this simple change to establish other alternative financing schemes.

B. Problems in establishing a State property tax on nonresidential property only.

1. Constitutional problems

a. Exempting residential property from a general property tax.

The New York constitution discusses exemptions in Article 16, Section 1:

> Exemptions from taxation may be granted only by general law. Exemptions may be altered or repealed except those exempting real or personal property used exclusively for religious, educational or charitable purposes . . .

This section has been liberally interpreted by the New York courts. The courts have held that the State legislature can enact or revoke exemptions at will, except for those exemptions explicitly required by the section. *(See Grossman v. Wagner, 20 Misc.2d 707, 192 N.Y.S.2d 557 (1959).)* The only restraint on legislative discretion in granting or revoking exemptions stems from Art. 1, S. 1 of the New York constitution: "No person shall be denied equal protection of the laws." This section has been interpreted to impose on the legislature the same standards of reasonableness that is imposed by the 14th Amendment of the U.S. Constitution. Under this constitutional framework the New York legislature has granted exemptions as liberally as any State in the union. Forty-three private exemptions exist in all, including those for private playgrounds and opera houses and for all Indians. In no reported case have any of these exemptions been challenged on constitutional barriers to exempting residential property. Such an exemption can easily meet a 14th Amendment test of reasonableness.

b. Establishing a limited property tax.

The New York courts have, in several cases, stated that the constitution makes no requirement that all property be taxed or that any tax must be on property generally rather than on specific classes of property. *(See, e.g., Feld v. Hanna, 4 Misc.2d 543, 195 N.Y.2d 269 (1959).)* The only constitutional requirement is that personal property not be taxed (it is explicitly exempted under Art. 16, S. 3 of the Constitution). Thus, again, the constitution presents no barrier. A property tax limited to nonresidential property would be constitutional.

c. Can residential property be classified separately within a general property tax system and be valued or taxed at a zero rate?

The analysis presented in subsection b, *supra*, applies equally well to this theory for establishing a nonresidential property tax. As long as the State legislature, rather than local government mandates that residential property be assessed or taxed at a zero rate, the scheme would be constitutional. A problem would arise if local governments were given discretion in establishing the classifications or the differences in rates between classes, since Article 16, S. 1 forbids State delegation of its taxing power over property. *(See, N.Y. Steam Corp. v. City of New York, 268 N.Y. 137, 197 N.E. 172 (1935).)* But a statutory requirement that residential property be classified separately and assessed or taxed at a zero rate would be constitutional.

2. Statutory problems in establishing a State tax on nonresidential property.

New York does not have a State property tax. Thus some statutory changes would be required to establish a State tax on nonresidential property. While extensive assessment improvement legislation was enacted in 1970 *(Real Property Tax Law, Oct. 15-A)*, the present statutory framework does not provide for State supervision and review of local assessments, essential for any State property tax. Substantial revision would be necessary. Nonetheless, close State supervision of local assessments could be established without radical change, especially since the State Board of Equalization already actively participates in assessor training and preparation of manuals and provides numerous advisory services.

II. Constitutional problems in establishing a system of site value taxation.

In New York, site value taxation clearly is constitutional. As discussed in IBla, b, and c *supra*, the constitution allows a tax limited to any reasonable class of property. In *Hanna v. Feld, 4 Misc.2d 2, 158 N.Y.S2d 94 (1956)*, the court explicitly said that a tax on land only would be constitutional (though that statement was dictum). A tax on land only can be shown, no doubt, to have a rational basis, the only requirement the courts will impose.

III. Problems in obtaining property tax relief through an income tax credit to low-income taxpayers.

A. Constitutional problems with property tax uniformity provisions.

1. Are low-income exemptions allowed?

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Although New York does not now have a homestead exemption or any other exemption for homeowners, except that veterans and the elderly get a maximum $5000 exemption *(Real Property Tax, Art. 4, S. 454)*, such an exemption would be constitutional. Again the only requirement is that the exemption have some rational basis. An exemption limited to low-income taxpayers would have no difficulty meeting that test.

2. Can the credit be characterized as a reasonable abatement?

In New York, as in most States except Massachusetts, abatements are granted only for overassessment of a particular piece of property. *(See Real Property Tax, Art. 7, S. 702.)* The ability of the taxpayer to pay is not a relevant consideration in any review of a local assessment. Thus, the credit would not be approved under this theory.

B. Constitutional problems with the income tax provisions.

The New York income tax is subject to the same constitutional restraints as the property tax, namely, that as long as any classifications established (for inclusions in income or deductions from income) have a rational basis, no constitutional problems are presented. *(See, e.g., In re Vanderbilt's Estate, 281 N.Y. 297, 22 N.E.2d 379 (1939).)* The present New York income tax has graduated rates (from 2 percent to 15 percent, *Tax Law, Art. 22, S. 602)*; a tax credit of $10 per household individual plus $25 for the head of the household (S. 606) has been abolished. These provisions have not been challenged on constitutional grounds, and an additional credit for property taxes paid by low-income taxpayers is not likely to be challenged. Such challenges would not succeed.

Fifty State Survey of Exemptions*

Beyond the in-depth analysis presented above for six States, a brief survey of property tax exemptions in the remaining 44 States was conducted. Only the leading cases of each State were read. From these cases, however, tentative conclusions were reached on (1) the constitutionality of a nonresidential property tax, i.e. of exempting residential property or of classifying it separately and taxing it at a zero rate; (2) the constitutionality of site value taxation; and (3) the consitutional problems presented by property tax provisions for a low-income exemption proposal. Problems presented by income tax provisions for a low-income exemption proposal were not examined at all. The results from these 44 States were added to the results from the six other States for the survey discussed below. These composite results are to be taken only for what they are, namely, tentative conclusions based only on a brief survey.

A. The constitutionality of exempting residential property from a general property tax.

The constitutions of 24 States forbid the exemption of any property from taxation except certain types of property specifically listed in that constitution. In none of these states is residential property specifically exempted. The States include:

Arizona	Nebraska
Arkansas	Nevada
California	New Mexico
Colorado	North Carolina
Florida	Ohio
Georgia	Oklahoma
Illinois	South Carolina
Indiana	Tennessee
Kentucky	Texas
Louisiana	Utah
Missouri	Virginia
Montana	West Virginia

In none of these States could a nonresidential property tax be established by exempting residential property. The only alternative basis through which such a tax could be established is to create a separate classification for residential property and tax it at a zero rate. Eight of the 24 States listed above allow some classification of real property. *(See Section B, infra.)* In the 16 other States a nonresidential property tax could be established only after the adoption of a constitutional amendment.

The constitutions of 21 other States appear to allow their legislatures to create any exemptions which conform to the "reasonable basis" requirement of the U.S. Constitution's 14th Amendment's equal protection clause and any comparable requirement found in each State's constitution. In these States it appears that an exemption of residential property would be permitted. However, this conclusion cannot be stated firmly. Most cases which challenge the constitutionality of exemptions involve lesser exemptions (e.g. charitable institutions, fraternal organizations or, at most, household personal property). While a court may only speak of a "reasonable basis" requirement when dealing with

*In general the laws on which this report is based were researched to a cutoff date of January 1, 1972. The most important changes since then are the amendments to the constitutions of Alabama and Tennessee. Their positions in the various lists in this appendix are not changed by these amendments because in neither State does this new classification system permit taxing residential property at an assessment ratio of less than 15 percent (Alabama) or 25 percent (Tennessee).

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such exemptions, it may not so readily permit an exemption which so significantly alters tax burdens as an exemption of residential property would do. Thus a number of courts might create a requirement, similar to the one discussed in old Kansas cases, *(see discussion, supra)*, that an exemption cannot alter the basic system of taxation. In light of this potential obstacle the only conclusion that should be reached is that in the following 21 States there is a good chance that an exemption of residential property would be held to be constitutional:

Alaska	New York
Alabama	North Dakota
Connecticut	Oregon
Delaware	Pennsylvania
Hawaii	Rhode Island
Iowa	South Dakota
Maine	Vermont
Michigan	Washington
Maryland	Wisconsin
Mississippi	Wyoming
New Jersey	

In the remaining five States the permissibility of a residential property exemption is unclear or doubtful. These States (Idaho, Kansas, Massachusetts, Minnesota and New Hampshire) allow exemptions beyond those specified in their State constitutions, but the requirements which must be met are stricter than a "reasonable basis" standard. Kansas' standards of not altering the basic nature of the tax is discussed above; in the other four States the standard appears to be a narrowly drawn definition of "the public interest," but see the Massachusetts section for an analysis of that State's law. Twnety-four States, thus, would *not* allow an exemption of residential property, 21 States probably *would* allow it, and five States are uncertain.

B. The constitutionality of classifying residential property separately and taxing it at a zero rate.

Classifying residential property separately and taxing it at a zero rate is not as strong a constitutional theory for creating a nonresidential property tax as is the exemption theory. The courts may well view the classification scheme as a sham device to create an exemption without calling it an exemption. Nonetheless, there is at least one State, Arizona, where an authority *(Att. Gen. Opinion 67-75)* has indicated that although exemptions of property not specified in the constitution could not be created, such property could be classified and taxed or assessed at a zero rate. Thus, there is a chance that this theory might work in other States where additional exemptions are not allowed.

A total of 21 States allow some classification of real property (some additional States allow classifications involving personal property, but that is of no concern here), with court review limited to discerning a "reasonable basis" for the classes created. However, in 11 of these States in which additional exemptions are also allowed, the classification theory is probably not needed to justify a nonresidential property tax. These States are:

Alaska	Oregon
Delaware	Rhode Island
Hawaii	Pennsylvania
Iowa	South Dakota
New York	Vermont
North Dakota	

In one State—Minnesota—the permissibility of additional exemptions is not certain, but classification is allowed. And eight States which prohibit additional exemptions do allow reasonable classification. These States are:

Arizona	Kentucky
Louisiana	Montana
New Mexico	Oklahoma
North Carolina	Virginia

Thus, in 21 States the exemption theory allows a basis for a nonresidential property tax. And in an additional eight States the classification theory affords some hope for establishing the tax.

However, there remain 16 States which allow neither additional exemptions nor classification. In these States a nonresidential property tax cannot be established without constitutional amendment:

Arkansas	Nebraska
California	Nevada
Colorado	Ohio
Florida	South Carolina
Georgia	Tennessee
Illinois	Texas
Indiana	Utah
Missouri	West Virginia

C. The possibilities for site-value taxation.

A property tax which is levied only on land faces the same constitutional obstacles as a property tax on nonresidential property only. Both would probably meet a "reasonable basis" requirement applied to an exemption or classification scheme for the tax system. But a stricter requirement probably could not be met.

Thus, a tax on land alone would probably be ap-

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proved in the 21 States which allow reasonable exemptions. *(See Section A, supra.)* In the five States where the possibility of such an exemption is uncertain, the possibilities for a land tax are also unclear. (Minnesota permits classification, an alternate basis for justifying the tax.) In the 24 States which do not permit exemptions not specified in the constitution, an exemption of improvements would not be permitted. However, since eight of these States allow classification, that theory may provide a basis for establishing a land tax. In any case, in these States, as in all 21 States which allow classification regardless of their exemption requirements, improvements and land could be classed separately with improvements taxed at a lower level if not a zero level.

D. Constitutional problems created by property tax uniformity provisions for a low-income exemption scheme.

The analysis here is similar to that presented in the above sections. If a State allows reasonable exemptions, it will approve an exemption for low-income taxpayers. Thus, at least 21 States can institute such an exemption, five are uncertain, and 24 probably cannot.

However, the low-income exemption may alternatively be viewed as a separate classification for low-income taxpayers with taxation at a lower rate. This theory will not necessarily be approved by all States which permit reasonable classification. Most such States have cases holding that distinctions between taxpayers, rather than distinctions between classes of property regardless of owner, cannot be reasonable *(See, e.g., Weissinger v. Boswell, 330 E. Supp. 615, D.C. Ala. (1971)* which held that classification according to property owner violated not only the Alabama Constitution but the U.S. Constitution's equal protection clause as well.) The survey conducted did not collect the number of such cases in all States, but it is doubtful that more than five to eight States would allow the establishment of classes based on the taxpayer rather than on the type of property. The reader is reminded that the research for this survey excluded validity under income tax provisions, which in fact would permit exemptions or credits for low-income taxpayers in most if not all the States where denied under property tax rules.

Federal Equal Protection Cases

Extract from Philip Nichols, Taxation in Massachusetts *63-68 (3d ed., Boston, 1938):*

Discriminatory Taxation

It is well settled that there is nothing in the Fourteenth Amendment which requires a state to tax all property within its jurisdiction at the same rate. Different classes of property may be taxed at different rates as the public policy of the state may seem to require and excises may be imposed upon certain occupations and not upon others without violating the provisions of the amendment unless there is a clearly hostile discrimination against certain persons or classes, not based upon any reasonable distinction.[1] Certain classes of property may be wholly exempted from taxation without giving rise to an occasion for interference by the federal courts.[2] The latitude of discretion is notably wide in the classification of property for purposes of taxation and the granting of partial or total exemptions upon grounds of policy.[3] Nevertheless the classification must be reasonable and not arbitrary, and must rest upon some ground of difference having a fair and substantial relation to the object of the legislation, so that all persons similarly circumstanced shall be treated alike. A discriminatory tax law cannot be sustained as a lawful classification if the classification appears to be altogether illusory.[4]

Discrimination in Rate

Property taxes are now almost always assessed in proportion to value, at least within the class, and a system by which a certain type of land is assessed at a fixed value per acre when in fact there is a great divergence in value is repugnant to constitutional right.[5] An exemption of smaller units, such as homesteads, is however commonly accepted, and a statute taxing smaller properties at a lower proportionate rate has been sustained.[6] Income taxes are of course measured by income, but substantial exemptions and progressively graduated rates violate no rights under the Fourteenth Amendment.[7]

With excise taxes there is often no such readily available rule for apportioning the tax as in the case of property taxes or income taxes. In many instances a fixed amount is charged in all cases, and a taxpayer cannot insist upon a reduction of the tax in proportion to the slight use which he wishes to make of the privilege taxed.[8] Usually however the tax is measured by the value of the privilege for which it is imposed, but there is no requirement that it be so measured. If however the excise is not of a fixed amount, the measure of the tax must have some relation to the value of the privilege; if it is dependent upon an unrelated and arbitrary factor it will be unconstitutional.[9]

Editorial note: None of the more recent cases examined requires any significant change in the statements made in the text. See also F. P. Schoettle, "Judicial Requirements . . . . ," 25 *National Tax Journal* 455 (Sept. 1972), especially p. 456.

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FOOTNOTES

[1]*Bell's Gap R.R. Co. v. Pennsylvania*, 134 U.S. 232, 237 (1890); *Home Insurance Co. v. New York*, 134 U.S. 606 (1890); *Giozza v. Tiernan*, 148 U.S. 662 (1893). Thus all corporations may be put in one class for purposes of taxation and taxed upon a different basis from individuals engaged in the same business, *Michigan Central R.R. Co. v. Powers*, 201 U.S. 245 (1906); *Fort Smith Lumber Co. v. Arkansas*, 251 U.S. 532 (1920); or corporations may be classified separately according to the business done by them, as banks, *Provident Institution for Savings v. Massachusetts*, 6 Wall. 611 (1867); railroad companies, *State Railroad Tax Cases*, 92 U.S. 575 (1875); *Kentucky Railroad Tax Cases*, 115 U.S. 321 (1885); *Charlotte etc. R.R. Co. v. Gibbes*, 142 U.S. 386 (1892); *Florida Central etc. R.R. Co. v. Reynolds*, 183 U.S. 471 (1902); *Ohio Tax Cases*, 232 U.S. 576 (1914); express companies, *Pacific Express Co. v. Seibert*, 142 U.S. 339 (1892); or oil companies, *Southwestern Oil Co. v. Texas*, 217 U.S. 114 (1910). An inheritance tax law which taxes at a higher rate property which, though taxable, escaped taxation during the life of the decendent is constitutional. *Watson v. State Comptroller*, 254 U.S. 122 (1920). A distinction may be made between steam railroads and street railways, *Savannah etc. R.R. Co. v. Savannah*, 198 U.S. 392 (1905); and between surface street railways and those operated in subways, *New York v. State Board of Tax Commissioners*, 199 U.S. 1 (1905). The franchises of corporations may be taxed at a different rate from tangible property, *Coulter v. Louisville etc. R.R. Co.* 196 U.S. 599 (1905). Securities issued by corporations may be taxed at a different rate from all other moneyed securities. *Bell's Gap R.R. Co. v. Pennsylvania*, 134 U.S. 232 (1890); *New York v. Reardon*, 204 U.S. 142 (1907). A distinction may be made between corporations doing business for profit and co-operative or mutual associations, *Citizens Telephone Co. v. Fuller*, 229 U.S. 322 (1913), and between express companies which own their means of transportation and those which employ the services of a carrier, *Pacific Express Co. v. Seibert*, 142 U.S. 339 (1892), and between large and small tracts of land, *King v. Mullins*, 171 U.S. 404 (1898). A distinction may be made between the different classes of insurance contracts. *Farmers' etc, Insurance Co. v. Dobbins*, 189 U.S. 301 (1903). A tax may be imposed on anthracite and not on bituminous coal, *Heisler v. Thomas Colliery Co.*, 260 U.S. 245 (1922) . . . (numerous citations of excise cases omitted).

[2]*Florida Central R.R. Co. v. Reynolds*, 183 U.S. 480 (1902); *Missouri V. Dockery*, 191 U.S. 170 (1903).

[3]*Royster Guano Co. v. Virginia*, 253 U.S. 412, 415 (1920); *Louisville Gas Co. v. Colman*, 277 U.S. 32 (1928); *Utah Power & Light Co. v. Pfost*, 286 U.S. 165 (1932); *Williams v. Mayor of Balitmore*, 289 U.S. 36 (1933).

[4]Thus a state law which taxes the income of domestic corporations doing business inside the state whether derived from business carried on within or without the state, but exempts altogether the income of domestic corporations which do no business within the state is unconstitutional as imposing an arbitrary discrimination. *Royster Guano Co. v. Virginia*, 253 U.S. 412 (1920). A state law which imposes a tax upon a foreign corporation which has come into a state in accordance with its laws and acquired property of a permanent character, at a higher rate than is imposed upon domestic corporations for carrying on precisely the same business is unconstitutional. *Southern Ry. Co. v. Greene*, 216 U.S. 400, 417 (1910) . . . . (further citations of excise cases omitted).

[5]*Cumberland Coal Co. v. Greene County Board of Revision*, 284 U.S. 23 (1931).

[6]*Columbus etc. Ry. Co. v. Miller*, 283 U.S. 96 (1931).

[7](Citations omitted).

[8](Citations omitted).

[9]*Air-Way Electric Applicance Corporation v. Day*, 266 U.S. 71 (1924).

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Appendix H

Taxation of Land

With Special Emphasis On Site Value Taxation in Hawaii and Oregon

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This paper discusses the potential of limited use of land value taxation (LVT) as a property tax and general economic reform measure, with special reference to the use and interest in LVT in Hawaii and Oregon.* Consideration is given to the problem and modifications required by the LVT approach to tax reform.

The emphasis is on (1) the political and economic conditions in Hawaii and Oregon that have led to LVT legislative action; (2) the problems and difficulties encountered in gaining political acceptance and legislative action and in carrying out actual administration of LVT; and (3) the procedures that were considered and adopted to overcome opposition to LVT and to improve its usefulness as a tax and economic measure.

Summary of Selected Findings

Hawaii

The Hawaiian graded property tax has never been a statewide approach to land taxation. The original legislation exempted land zoned or dedicated for agricultural and conservation use. In 1969 improved residential property was also removed from the graded approach to property taxation. However, the Hawaiian experience has been broad enough to destroy once and for all the old canard that land cannot easily be assessed separately from the improvements on it.

Both the original exclusion and the later one of 1969 favored the large landowners. The difficulties that were remedied by complete exemption from the graded property tax could have been removed without throwing out the baby with the bathwater. The most obvious possibility was the adoption of a graduated graded property tax.

The land classification system used by the Hawaiian Tax Department and the State's Land Use Law have caused unnecessary confusion and complications. As a result, assessment shortcomings are encouraged and the graded property tax has become too complicated for the legislature or the voters to understand.

The graded-tax concept appears to have few friends in Hawaii. It has been constantly opposed by the Governor and the Department of Taxation and more recently by the construction industry and hotel owners. Nevertheless, the law is not expected to be repealed. Also, a number of political leaders have plans to expand the application of the principle of LVT and to remove some of the shortcomings of the graded property tax as it now exists in Hawaii.

Oregon

Oregon, like Hawaii, has a concentration of land ownership and considerable private monopoly over the productivity of government-owned lands. However, residential land is readily available, and the Hawaiian leasehold system is not practiced in Oregon.

The portion of America's populist movement concerned with direct legislation by the people first arose in Oregon. Along with political populism came

*The materials considered in this paper came from (1) interviewing leaders in Hawaii and Oregon interested in legislating and administering taxes; (2) published analytical and descriptive articles and studies dealing with site value taxation and the graded property tax in general, and specifically with their use and consideration in Hawaii and Oregon; and (3) relationships developed out of *The Description and Analysis of Oregon's Fiscal System*, prepared in 1970 and 1971 by a task force of Oregon-based economists. The latter study covers 25 topics and is available from the Department of Revenue, Salem, Oregon 97310. Three terms – (land value taxation (LVT), site value taxation and graded property tax) – will be used in referring to increasing the taxation of land rent and land values. When specific reference is made to Hawaii's legislation, the graded property tax term will usually be used.

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a form of economic populism that advocated a modified version of the ideas of Henry George, particularly the use of LVT to finance State and local government. William Simon U'Ren, the leader of the movement, stated that his development of populist political tools such as the secret ballot and the initiative was largely for the purpose of bringing about the enactment of LVT.

Between 1905 and 1917 U'Ren's movement advocated the use of LVT in various forms. Efforts at both the statewide and county levels failed to attract sufficient support to enact LVT into law.

Nevertheless, the general concept has remained in the political arena.

The adoption of LVT to finance schools in Oregon would bring about a reduction of about 25 percent in residential property taxes and an increase in property taxes on vacant urban land and agriculture, grazing and forest lands. The groups that would experience a tax increase, particularly the farmers, have been active in countering the LVT movement in Oregon.

General Issues

The advocates of LVT have been guilty of claiming more than their reform could deliver. In Hawaii, with its modest property tax collections, a partial LVT was incapable of breaking up the large land holdings or of making a complicated land dedication program work. Yet, when this has not happened, LVT has been blamed because its advocates had promised these results.

Neither in Hawaii nor in Oregon have LVT advocates been able to overcome the opposition of agricultural interests. In Hawaii, dedicated agricultural land has been exempted. In 1912, Oregon farmers prevented the adoption of LVT legislation, and in 1972, by active opposition, prevented serious legislative consideration of it.

An alternative to the Hawaiian exemption of large land areas from the graded property tax would be a more complete integration between the land dedication and property taxation activities. Neither Hawaii nor Oregon has quite made the decision that, for the foreseeable future, dedicates land to one use only, with a change possible only if the land is State-owned. However, both States have moved in this direction, and both have statewide zoning.

More general problems relate to the use of LVT, but possible approaches exist. For example, (1) the betterment tax is better than nothing, and may turn out to be the first step to LVT, and (2) a problem is encountered by LVT when land decreases in value because of reduced demand and because of rising interest rates. In this connection the LVT can provide a useful cushion to the landowner under low-demand circumstances, because the LVT portion of the fixed cost of ownership decreases as highest-and-best-use value declines. This decline makes it somewhat easier to meet constant mortgage costs and therefore assists in continuing the investment during difficult times.

The use of LVT encounters the traditional obstacles to the removal of economic power. Almost nobody enjoys a reduction of ability to profit from the control of scarce resources. The only effective procedure is to make the voters aware of the requirements of democratic capitalism. Tax administrators in Hawaii and Oregon see education and the informing of voters as the prime requisite to LVT adoption and to sound administration.

The long-term economic effects of LVT are not easily explained. But a seeming injustice to an old couple required to pay taxes because of the valuable land under the old homestead is easily dramatized by opponents of LVT. Those advocating LVT in both Hawaii and Oregon have not learned the lesson well understood by the managers of the income tax: When pressures develop, a minor concession or two is made; i.e., neither insist on purity nor exempt a large portion of the tax base.

Those convinced of the sound economics of LVT often forget that its introduction nudges institutions and individuals to change their accustomed behavior. The construction industry today is accustomed to horizontal building development and the construction of highways. Adoption of site value taxation pushes vertical development and rapid-transit construction. The construction industry and other businesses find change of this character uncomfortable. The tile manufacturer wants to keep his inventory in open sheds on the ground rather than in a vertical facility. LVT, however, nudges him to go vertical.

Each land user who economizes his use of land releases land for others. The builder accustomed to locating a new development out in the countryside feels uncomfortable using released city land, so utilization is slower than it need be, but this is the direction in which urban development needs to go.[1] The impact of very incomplete site value taxation in Hawaii seems to demonstrate its usefulness as a catalyst in this process.

Tax Impact, Capitalization and Ability to Pay

The groups favoring site value taxation in Hawaii and Oregon often face the criticism that the tax may have to be paid by those with little taxpaying ability and that the tax payment burden is often not carried by those with a high ability to pay taxes. This situation is a serious political liability that must be modified satisfactorily before the benefits of site value taxation can be enjoyed.

Hawaii and Oregon tax administrators agree that

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the reduction of the property taxes on the typical homestead is a vital first step. However, communicating that fact and explaining how it takes place is as important as the reduction itself. It would perhaps be best to create the correct tax burden image by establishing land tax rates graduated by several steps based on the total assessed value of land owned by a single family or a business. In addition, the first $1,000 or so of land owned by an individual or a corporation needs to be exempt. Also, a procedure is required to reduce the LVT liability of persons in unusual circumstances that cause payment to be a great individual economic sacrifice or an apparent social loss.

One of the basic political and administrative decisions in the introduction of site value taxation appears to be whether the LVT concept is introduced (1) on a local government basis as part of a land-use dedication or zoning program in urban areas—an approximation of what has developed in Hawaii—or (2) on a statewide uniform basis applied to highest-and-best-use value as a property tax reform that meets court objections to current school finance procedures while increasing the social use of land rents—a recommendation of the Oregon Fiscal System Task Force. Although the local and the uniform State approaches to LVT are correctly considered alternatives, they are also compatible. Taking the first step toward LVT, whether it is the local approach or the statewide procedure, seems to lead to a realization that both programs are needed for for the people of a State to enjoy the contribution site value taxation can make to good private-sector land-use decisions and a tax program using a socially and economically wise choice of bases.

Hawaii's Graded Property Tax

Political Background

The fiscal-political background of the existing graded property tax of Hawaii goes back to the 1954 economic and political "revolution" in Hawaii. The Democratic Party came to power in the legislature and set out to make politically effective the economic goals of the ordinary working Hawaiian.

Economic injustice and economic weakness were attributed to one characteristic: the existing concentration of land ownership in the hands of a few families.* The distribution of land ownership was seen to give a relatively small number of persons undue economic power over the lives of most residents. It was believed the economic power was used to retard economic growth and to increase the cost of housing.

Land Reform. The concentration of economic power resting in land ownership was seen to be tolerable if two developments took place: (1) if the land were fully utilized in carrying out economic activities; and (2) if parcels of the large landholdings were brought to the market for sale under relatively competitive conditions.

The legislature, where the new political groupings were represented, saw its taxing power as a principal base from which to develop procedures to bring about the desired type of land management.* The taxation of land on the basis of its highest and best use would place economic pressure on the landholding groups to develop the potential of their holdings. Also, it seemed apparent that the need for capital to develop the large landholdings of the estates and funds to pay the taxes on the land would bring parcels of land onto the market at relatively competitive prices, lower than current levels.**

Economic Development. In addition to this "stick" type of pressure seen to arise out of the graded property tax, the procedure was also expected to provide a useful "carrot." The structures and improvements placed on the land would be taxed at a lower level than land. As a result, taxes on property whose value consisted largely of improvements would be less than on a piece of property of the same value but consisting largely of land, if both pieces of property were in the same class.***

1963 Legislation. The 1963 legislation, as adopted, applied only to urban property. Land classified as agricultural or conservation by the State Tax De-

*The concentration of ownership remains high, but development control has been diffused. Twelve owners hold 52 percent of the land area of the State.

*In addition to the tax proposal (called the "Pittsburgh Land Tax") the land reform package called for the so-called "Maryland Ground Rent" bill and the "New Zealand Condemnation" measure. The Maryland Ground Rent law makes provision for lessees acquiring ownership in fee. The law has not been used, so its constitutionality remains unknown. The New Zealand Condemnation Law provides for government condemning land for use as privately owned residences.

**Working under provisions of the law, estate management people developed leases that included a fixed annual rent on the land for 40 years, with the lessee responsible for paying the property taxes. The effect of these leases was to bring the impact of land tax legislation onto the lessee and not the landowner. The graded tax provision, then, may have hastened the setting up of development arrangements, but it did not hasten the breakup of land holdings. Land ownership concentration remains today about as it was in 1954.

***The seven classes used by the Department of Taxation are (1) conservation, (2) agriculture, (3) improved residential, (4) unimproved residential, (5) hotel/apartment/resort, (6) commercial and (7) industrial. The graded property tax is applied only to property classes (4) through (7).

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partment was not included under the graded tax legislation, and the tax levied on land and buildings in these areas remained uniform. If the fiscal-political philosophy of the reform group that came into power in the legislature in 1954 had been carried out, the LVT approach would have been applied first and most completely to the agricultural and conservation-type properties. Because the assessed value of these properties arises largely from land, the reduction of the tax rate on buildings was unimportant; full exemption would have changed the tax rates applied to land only slightly, but it would have extended the stimulus to construction.*

The political requirement in the 1950's to do something to hit the pocketbook of Hawaiian landowners, to reduce the monopoly power of land owners, and to stimulate Hawaiian economic development brought forth Hawaii's graded property tax legislation. It was an approach developed and pursued by the legislature. The State's Legislative Reference Bureau provided a general historical and theoretical underpinning that was useful in demonstrating that what was new to Hawaii was not new to the world. Here the Pittsburgh experience and the theoretical writings of Henry George proved to be most helpful. The aim was to improve the economic well being of the ordinary Hawaiian citizen by bringing about more complete use of the economic potential of the State's land resources. The Hawaiian reform did not have as an aim the increase of the property tax portion of total taxes. There was very little of the idea of the capture of land rent in the proposal. Rather, the aim was to reduce the portion of property taxes collected from improvements and increase the portion based on land values.

Problems

Administration. The problems that have been encountered in the application of the graded property tax have in the main arisen from unique Hawaiian conditions rather than in the areas generally identified as problem spots.* For example, it is frequently alleged that it is very difficult to set separate values for the land and the improvements of a given piece of property. The tax administrators of the State, as well as others associated less directly with the Hawaiian graded property tax, reported without exception that setting separate values for land and improvements caused no problems.

Some tax administrators have speculated that under the graded property tax the existing problem of pushing value toward structures and away from land would be intensified. The current practice of placing a high portion of the value of a real estate holding on the buildings is one of the impacts of the liberal depreciation deduction on buildings allowed under the Federal income tax. The Hawaiian officials report that this problem has neither worsened nor improved.

Another problem to be expected from the use of LVT has been avoided by dividing all property of the State into seven classes. Currently, the graded tax system only applies to four of these seven classes. The effect of this restriction is to limit the Hawaiian graded property tax largely to urban nonresidential real estate. By grouping like properties and by varying valuations on the basis of a tax classification corresponding to the State's land-use zoning, the classification procedure has prevented the graded property tax from generally increasing taxes paid by large land users. Thus, the difficulties arising from an increase in the tax burden because of the nature of the industry have been largely avoided because the procedure used has only required similarly placed property owners to alter the portion of their total property tax payment resting on land and that resting on improvements.**

The procedure used largely precluded an increased relative tax burden on large land users but at the expense of making the application of the legislation much more complicated than it needed to be and of applying economic pressure for more intensive land use only in the area where land was already highly developed. Pressures exist in built-up areas because, when the improvement portion of the property tax base is very high, the increase in the land rate required to absorb a 20 percent reduction in the taxes on improvements is relatively large.

*In none of the discussions of the period when the graded property tax was being considered, nor in my interviews of May 19-23, 1972, was the idea presented that land possessed unique characteristics that made it an appropriate base to tax. Land taxation, instead, was and is always considered as largely a method of improving land use or reducing the concentration of land ownership. Therefore, the fundamental desirability of reducing land rents by increasing land taxes is not considered.

Currently some advocates of change are considering procedures to pick up the unearned increment when land is rezoned. Again, however, the basic desirability of taxing land, the one fixed factor and therefore the recipient of rents that labor and capital cannot receive because their quantities vary depending on return, is not developed. See Louise A. Rose, *Taxation of Land Value Increments Attributable to Rezoning* (Honolulu: Economic Research Center, 1971), for a consideration of some aspects of the problem.

*For example, one continuing problem existed because the Director of Taxation was a brother of the Governor. His department year after year introduced legislation to eliminate the graded principle, and he induced the Governor to delay the speed of introduction. He no longer heads the department, and opposition appears to have declined.

**The graded tax falls heavily on urban activities such as gasoline stations, drive-in facilities and storage and warehousing activities.

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Economic Impact. The form in which the Hawaiian graded tax law was enacted and the manner in which it has evolved have caused the pressure for the construction of more buildings to be in the very areas where concentration is already the greatest. On the other hand, building construction is not stimulated in agricultural or conservation or residential areas. The result has been a feeling of dissatisfaction evidenced by pointing to the high-rise hotels, apartments and office buildings on Waikiki beach and in the neighborhood of the State Capitol in Honolulu. The concentration of people and buildings has been carried to extremes. This shows the ability of the graded property tax to increase the intensiveness with which land is used. This was not an aim of the original land-policy reform group in Hawaii, but is to be expected from the use of procedures that increase the portion of the property tax burden carried by land.

The construction and the hotel industries, which originally supported the graded property tax idea, are reported to favor repeal. Their position appears to rest on a fear that continued building will reduce the rate of return on the construction already completed by more than the higher taxes on buildings from abandoning the graded feature.

Few of those paying the traditional property tax understand it. The property tax in Hawaii is even less straightforward, and only the experts understand it. Some believe that despite educational efforts, even most assessors do not understand the law.

The first deterrent to public understanding arises because all property in Hawaii is assessed at 70 percent of market value. This figure frequently is confused with the 70 percent of the assessed value of buildings that is the building's tax base (in 1973).

Another area of public confusion exists because the State is divided into four zones under the basic Land Use Act and property into seven classes by the Department of Taxation. Although both the Department of Taxation and the Department of Planning and Economic Development insist that this is not confusing, one would be hard pressed to locate ten citizens able to understand the purpose of the two different land classifications. This situation has, of course, rubbed off onto attitudes toward the graded tax approach itself.*

Political Support. The 1963 graded property tax became effective January 1, 1965, when 90 percent of the assessed value of buildings within covered classifications was included in the tax base. Although the Governor could have reduced the building factor to 80 percent after two years, he did not act. Thus, the provision of the law requiring the 80 percent building factor did not become effective until 1969. Two years later the Governor again failed to act and the 70 percent building factor was not to become effective until January 1, 1973.* Further reduction of the building factor depends on action of the city council with approval of the Governor. The building factor can be decreased by 10 percent at intervals of not less than two years until it reaches 40 percent. Therefore, the 40 percent building factor could be reached in some urban areas by 1980.

The unwillingness of the Governor to act has delayed the application of the graded principle. It has also prevented absorption of the maximum amount of unearned increment possible under the law during the past several years of very rapidly rising land prices in Hawaii. The same man has been Governor during the entire period of the existence of the graded tax law. His re-election demonstrates that his lack of action leading to delay of application of the full impact of the graded tax law was not an unpopular act.

In 1969, illustrative tax statements were circulated showing that residents with very modest old homes on relatively valuable land paid more property taxes than taxpayers with modern homes with the same total assessed value. This tax differential on residential property with the building constituting varying-portions of the total value led to the removal of improved single-family and two-family residential property from the application of the graded tax.**

The legislation removing improved one- and two-family residential property from the graded tax resulted in the establishment of an unimproved residential category. Property placed here is in the same category as three-or-more family apartments and hotel and resort properties, and the graded principle applies. The law does not require vacant lots to be taxed as unimproved residential property in an area sufficiently developed to support "a single or two-or-more family residence at a density of at least a single or two-family residential building per acre."[2]

*The basic zoning law of Hawaii, Act 187, was amended by Act 205 in 1963. Under these acts, the Department of Taxation is given a sound basis upon which land assessments can be made. The Land Use Commission files certified copies of its classification, showing district boundaries, with the Department of Taxation. Thereafter the Department of Taxation gives consideration to existing and permitted use of land in making assessments. (See Stephen M. Oone, *The State Zoning Law* (University of Hawaii, Cooperative Extension Service, 1964), p. 9.

*A change of the fiscal year in 1966 moved the effective date to July 1, 1973.

**Act 218, 1969 *Session Laws of Hawaii*. The change grew out of a problem that also existed because single-family residences were located on land dedicated for higher uses. See Walter Nicklius, *Taxation of Urban Land: Nonconforming Residential Properties* (Honolulu: Economic Research Center, 1968).

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Therefore, the modification has gone further thar was required to alleviate the tax liability comparison between modest homes on valuable land and expensive homes on land of a similar or lower value. Speculative holding of residential lots was also made less expensive and more profitable. This type of problem is avoided if land alone is included in the ad valorem tax base and service charges are used to meet most costs of city government.

Tax Base and Collections. Hawaii is unique among States in that the property tax rate is uniform in each county. In Honolulu, the rate was $19.21 for 1972. This rate was applied to the assessed value (70 percent of full value) of all real estate located in the improved residential, agricultural and conservation areas where the graded tax system does not apply.

The rate applied to the other property classes varied between buildings and land as shown in table H-1. The average weighted rate, however, was $19.21 for these classes, the same as the single rate applied on real estate located in areas classified as improved residential, agricultural and conservation.*

The total real property tax collections for all four counties totaled $98.3 million for fiscal 1972. This total is some $11.5 million more than that for 1971 and $28.0 million greater than that for 1969. The average unweighted rate was $18.62 in 1972. This is just a bit lower than the average for the three previous years. The average effective tax rate for Hawaii was about 1.5 percent in 1972.

*The official example of the procedure used to adjust tax rates to meet the requirements of the graded property tax can be obtained by writing the Department of Taxation, Hawaii and asking for "Examples for Computing the Building, Land, and Real Property Tax Rates for various General Classes of Real Property under the Provisions of Act 142, 1963, the Pittsburgh Plan of Taxation."

The Hawaiian graded tax procedure—combined with a requirement that the same amount of taxes be collected from a general land-class area as would be the case if the uniform flat rate applied to the assessed value of all property—causes the rate on land to be relatively much higher where there are many large buildings. This impact is apparent in the rate of $22.12 per $1,000 of assessed value of land in the hotel-apartment class area shown in table H-1. This procedure makes the graded tax with a building factor of 70 percent more potent than is first apparent.

The impact of the graded tax under the 80 percent building factor in Hawaii is considerably greater on land classified as hotel-apartment and commercial and industrial and located in Honolulu County than the percentage factor indicates. For example, table H-1 shows that the rate applied to land located in an area classified as hotel-apartment is 25 percent higher than the rate applied to the building portion of the base. About the same situation exists for land and buildings in areas classified as commercial and industrial.

Business Attitudes

Construction Industry. The construction industry can be divided into two major divisions—the construction of buildings on the one hand and of roads and sewer lines on the other. Those that construct buildings have always, in a general way, favored moving toward greater use of the land portion of the real estate tax base. The other portion of the construction industry and the real estate industry have been less than enthusiastic. As in the rest of the U.S., the real estate industry in Hawaii has become committed to the horizontal development of land. Also, the builders have sometimes developed a divided

Table H-1
Honolulu Real Property Tax Base and Collections, FY 1972
(in thousands)

	Land		Buildings		
Property Classes	**Assessed Value[1]**	**Tax Rate**	**Assessed Value[1]**	**Tax Rate**	**Total Tax Collections**
Improved residential	$1,161,034	19.21	$619,505	19.21	$34,204
Unimproved residential	70,701	19.37	3,079	15.51	1,417
Hotel-Apartment	356,595	22.12	687,065	17.69	20,042
Commercial	319,694	21.61	401,215	17.29	13,846
Industrial	288,016	20.80	178,325	16.63	8,956
Agricultural	72,822	19.21	14,372	19.21	1,675
Conservation	8,649	19.21	1,553	19.21	196

[1]70% of full value.

Source: Tables 18 and 19, Government in Hawaii, Tax Foundation of Hawaii, 19th edition, 1972.

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loyalty because they saw the land tax reducing short-run gain from speculative land holdings.

The expected transfer of substantial funds in Honolulu from highway to mass transit could be helpful in increasing the construction industry's pro-land-tax position. The industry will become aware that emphasis on land taxation develops conditions appropriate for more contracts for mass transport. The conventional property tax is a revenue source with a "heavy bias against replacement."[3] Gradually, the real estate industry can be expected to become cognizant of the profitability of both vertical development and structure replacement.

Waikiki Improvement Association, Inc. The Waikiki Improvement Association, Inc. has developed a public position regarding the "highest and best use" approach to property assessment. Members of this group believe that the graded property tax has "resulted in rapid high density development, overburdening of public facilities and a glutting of the hotel market."*

The association advocates setting assessed value on the basis of income from current land use only. It feels that this policy, at even the current low Waikiki tax rates, would preserve planted areas, low-rise buildings and landmarks. The State Tax Department estimates that valuation of land on the basis of existing use only, rather than highest and best use, would decrease property tax collections by about 30 percent at current tax rates.

The high-rise hotels on Waikiki were partially the result of high land prices.** Both resulted from a failure to set hotel height limits that increased with the distance from the beach. Legislation has been adopted to encourage private land dedication of open space in Waikiki for public use. This, however, does not appear to be the type of open space favored because the opportunity provided has not been utilized.***

Tax Foundation of Hawaii. The Tax Foundation of Hawaii has analyzed how LVT has worked in Hawaii.[4] It takes the position that in Hawaii total value *in any one class* is not affected by site value taxation and states that "Site valuation redistributes value" but only within a class. The paper suggests that the salutory goals of site value taxation could be better carried out through zoning ordinances and building codes.

*Stated in a letter of April 3, 1972, sent to Hon. Nadao Yoshinaga, Chairman, Senate Ways and Means Committee.

**An acre with ocean frontage has a mortgage value of about $4 million.

***Interview with Randolph M. Lee, Jr., President of Halekulani Hotel, a low-rise open space facility located on the beach. He estimates he pays $1,000 property tax per room, while a high-rise next door pays $200 per room.

Attitude of the Department of Taxation

The Hawaii State Department of Taxation has presented its reasons for believing the goals of the graded property tax can be better achieved with a single tax rate law. Basically, the department's position amounts to a belief that higher single-rate property taxes plus effective administration can accomplish the aims of the graded property tax, while avoiding the serious problems created by collecting differing amounts of taxes from properties of the same value because different portions of the values are attributable to land.

The problems of the Hawaiian graded approach to property taxation, as seen by the State Tax Department, arise in part from the type of legislation enacted in Hawaii but to a greater extent from the concept itself. The department also believes that the additional difficulties fail to bring forth commensurate benefits.

The difficulty noted by the State Tax Department arises from the division of the land into dedicated use classes and the shifting of the tax burden onto land only within each class. (See pp. 226-228) Each dedicated use category of land is given a total assessed value which must be in the base, but the impact of the graded feature varies depending on the portion of this total base that consists of buildings.

The adverse impacts of the site value concept, as applied in Hawaii, are: (1) the costs to business of providing open space are increased; (2) tax calculations are more complicated; (3) land-intensive industries are favored; and (4) a higher tax on vacant land violates the concept of taxation according to benefits of government expenditures.

The difficulty of (2) is to a considerable extent the result of the way Hawaii has legislated site value taxation and of the attitude of the administration. Moving toward LVT by the introduction of a flat-rate statewide LVT that is in addition to local property taxes has the advantage of introducing the concept gradually without the complications of gradualism. (See also pp. 236-238.)

Solutions Considered

Zoning and Dedicated Land Use. The property classification used by the Hawaii Tax Department and the land-use categories identified for zoning by the State of Hawaii Land Use Commission require consolidation. This legislative action would bring about simplification and would recognize the fact that the Real Property Tax Law and the Land Use Law have so many linkages that they are really inseparable. This action would also effectuate the stated purpose of using tax policy to assist in the carrying out of land-use planning decisions.

Betterment Tax. The next step is to adopt legisla-

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tion making land-use changes nearly impossible and establishing an effective betterment tax to pick up a very large percentage of the value increase when a change is made. (See pp. 240.) the value of property within a category zoned for lower use is increased if the possibility of rezoning exists. The substantial removal of this possibility goes a long way to assure economic soundness of zoning.

Increase Emphasis. A more drastic solution to the problem of the highest and best use of zoned property rising above its value for the zoned use would be to apply the graded property concept more intensively by (1) raising property tax rates, (2) placing a higher portion of total property taxes on land and a lower portion on buildings, and (3) raising assessment levels from 70 percent to 100 percent. Under this procedure a substantial portion of land value increase would be drained off as the increased land tax was paid.

Graduated Property Tax Rates. Because land ownership continues to be concentrated in Hawaii, more intensive use of the graded property tax could be combined with rates graduated on the basis of size of land holding. If graduated rates are not used, the large landowners can follow their present practice —specifically approved in the LVT legislation—of making lease contracts that provide for the payment of property taxes by the lessees. The procedure is credited with transferring the economic burden of property tax payments from the owner to the lessee. A change to graduated rates would shift the economic burden of LVT on large land holdings to the owners. This shift can be expected because the land tax portion of the property tax would be higher for them, but the price they could charge as rent would have to be competitive.

Information Program. Better understanding of the purpose of the graded property tax and the way this purpose is carried out requires simplification and greater coordination of information efforts. The continued antagonism of the Department of Taxation to the graded tax concept has undoubtedly retarded both developments.

Public support of a tax weakens when the public believes that (1) ability to pay is being violated, (2) prices are increased, (3) the number of jobs is decreased, and (4) environment is worsened. The graded tax and the taxation of land generally in Hawaii comes out very well when measured in terms of avoiding these shortcomings, but public understanding of Hawaii's graded property tax needs to be sharply increased. The existing situation has decreased public support and slowed down progress toward the original goal of the 1963 legislation.

Uniform State Land Tax. The most direct step that can be taken toward public understanding would be to apply a uniform statewide tax rate to 100 percent of the highest-and-best-use value of all land. The present low property tax collections in Hawaii and State financing of primary and secondary education make this action possible. More than likely its introduction should be accompanied by the levy of service charges on all income-producing buildings.

The zoning and capital gains problems that would arise from the recommended direct approach have been considered by the writer. A recent study points out that these problems already exist in Hawaii and have been exacerbated by the existing very complicated procedures.* The current situation actually can be accurately characterized as a device to produce lower property taxes to support speculation in later land development and higher use opportunities.[6] Even without protection devices, the simple procedure outlined would be an improvement over what apparently exists.

Homeowner Treatment. The service charges recommended are limited to income-producing buildings in order to extend an inducement to homeownership. The service charges would be based on full costs and cover sewer, garbage, fire protection and police services. The procedure would be readily understandable.

Homeowners, in exchange for exemption from service charges and exemption of the house from the property tax, would have their exemption of $8,000 of assessed value eliminated on a graduated basis, i.e., the higher the income, the less the exemption.** The additional exemptions now given to elderly homeowners would be available only to the low-income aged.

The property tax amendments of 1969, which removed the graded property tax from improved residential property, arose directly from examples showing that a residential property worth, say, $30,000 and consisting of two-thirds house and one-third land paid less taxes than another residential property made up of $20,000 land and $10,000 house. Instead of working out a procedure whereby a low-valued house owned and occupied by a low-income family could have its property tax frozen until the present owner sold the property and realized the capital gain or died, the legislature was induced to exempt this very large portion of real estate from the application of the graded property tax.

Many of the homes in Hawaii are built on rented

*This problem is serious under the present system. One study has concluded that Hawaii's dedication law is really not a method of preserving agriculture but rather a method or license to profit.[5]

**The $8,000 exemption at 70 percent valuation includes land and building on fee simple property but buildings only on leased property.

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land with a lease requiring the householders to pay the property tax. The arrangement lessens the inducement to invest in housing. This situation plus the high price of land makes the land frequently more valuable than the buildings. This is, of course, the reverse of the typical situation on the mainland.

The fact that land occupied by the home is leased at a constant dollar rent on a long-term basis adds another dimension to the Hawaiian household-property tax relationship. The homeowner loses some of the benefit arising from a fixed land rent as the taxes based on current market value of the land are increased. Because the house is apt to be modest, the rising property taxes are seen to be largely an adjustment through the years of the fixed-money rent paid for the land.

Also, the Hawaiian landowner, by avoiding the placement of all property taxes on land, has improved his long-term position. When he reclaims the use of his land upon the expiration of the lease, the tax liability adhering to the land will be lower if the house has been included in the base at fully assessed value than if the land alone constituted the tax base.

When all the relatively unusual elements of the Hawaiian situation are brought to the surface, one can understand the failure of the legislature to cling to the graded property tax on improved residential property. The consideration of these elements also leads to a uniform State LVT levied on highest-and-best use as the appropriate way to reduce Hawaiian difficulties in the application of the graded property tax to residential land.

Conclusions

The conditions in Hawaii that have resulted in the non-application of the graded property tax in residential, agricultural and conservation areas make more acceptable a tax program that allocates much of land rent to the State. The unique Hawaiian conditions that provide this opportunity have already been mentioned but in a different context. They consist of the following:

(1) The classification or dedication of property is the Hawaiian way of giving, under a unitary tax system, some of the advantages of different tax jurisdictions found on the mainland. Because the land dedication is not associated with government services, the removal of the different treatment given to the value of land dedicated to different purposes should be somewhat easier to accomplish in Hawaii than is likely to be the case on the mainland.

(2) Because schools are not financed with property taxes, the rates are much lower than on the mainland. This dissociation makes the impact on capital values of a change in the property tax base less important.

(3) The relatively high land values in Hawaii provide an exceptionally strong base to which land tax rates would apply. The adoption of a land-only property tax in Hawaii does not involve as great a narrowing of the property tax base as would a similar shift on the mainland.

(4) The increase of the land tax on residential property under Hawaiian conditions does not decrease the capital value of a household's investment in land as is the case on the mainland where the land on which a residence stands is owned *in fee* instead of as a leasehold.

Oregon's Interest in Site Value Taxation

Oregon's political and economic concern with site value taxation goes back to the early part of the century. Many of the political and economic realities in 1912 that quickened Oregon's interest in making extensive use of the land portion of the property tax base and exempting the buildings portion continue to exist in 1972. Also, many of the roadblocks to enacting the principle of land taxation exist now as they did 60 years ago.

Oregon in 1972, as in 1912, includes large tracts of forest, grazing and ranching land. The control through ownership or right of use or purchase of production is concentrated in the hands of a relatively few businesses and individuals. This situation provided the political and economic backdrop to the strength of populism and site value taxation in 1912 and provides part of the explanation of Oregon's failure to adopt the retail sales tax through the years and the continued political interest in land taxation.

The January 1971 report of the Oregon Fiscal System Task Force considered a uniform statewide land tax the best type of site value taxation. An Oregon initiative in 1908 had also sought to introduce a statewide land tax. However, at that time, State financing of schools with a uniform statewide land tax was not the principal issue. In 1908, property taxes provided most of the financing of the State government as well as of local government and the schools. LVT at the State and local government levels and customs collections at the Federal level were envisaged as financing a very major portion of all government services appropriately provided during periods of peace.

The changes of the past 60 years are many. Whether the current conditions make site value taxation more acceptable to Oregon voters is unknown. Also, one cannot be sanguine, despite Oregon's fondness for voter-initiated legislation, that the test will

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be made when Oregon revises its school finance methods to meet the expected decision of Oregon's courts in a pending school finance case following the path marked out by decisions in California, Texas, Minnesota and New Jersey.

Historical Background

Oregon Political System. The Oregon involvement with site value taxation is entwined with the promotion and adoption of what is often called the "Oregon political system," which provides for legislation and control of elected officials directly by the people. This "political power to the people" program is provided for in the initiative, referral and recall.

The political leader largely responsible for putting through this populist form of both State and local government was William Simon U'Ren (1859-1949). In his *Report of Single Tax Conference* (pp. 21-22) in 1910, he points out that he saw the initiative and the referendum plus the restriction on the power of the legislature to enact tax legislation as a way of bringing about the adoption of site value taxation in Oregon.*

Mr. U'Ren and his supporters were successful in their efforts to introduce the "Oregon political system," including direct voter action to initiate state constitutional amendments. The "system" was extended to "all local, special, and municipal legislation" of every character in 1906.[7] However, "political power to the people" did not prove to be as popular as it had been when adopted for State government in 1902.

Land Tax Proposals. With these preliminaries out of the way, Mr. U'Ren was ready to move forward to the introduction of site value taxation on a statewide basis. In 1908, initiative legislation to amend the constitution was proposed to exempt certain improvements and personal property from taxation.

The proposal was for the property tax rate to rest only on the value of land and certain other property such as railroads, inventories and retail stores.[8] The initiative was defeated 60,871 to 32,066 but the election returns showed that certain counties were closely divided on the desirability of site value property taxation.[9] This prompted action ending in adoption of legislation in 1910 that provided for county option as to type of property tax to be utilized.

This legislation was repealed two years later but during the brief time county option was in effect, the several counties where the 1908 LVT vote was close failed to adopt the site value approach to property taxation.* County option did not result in LVT, despite very active campaigns by U'Ren and others.** A statewide graduated site value tax amendment was defeated in 1912 by a vote of 82,015 to 31,534.

The Oregon site value property tax campaigns of the 1906-1912 period received substantial outside financial and organizational assistance from the Fels Fund of Cincinnati, Ohio. This assistance declined as the program failed to attract enough political support to be adopted. In addition, the excitement of participation in World War I reduced interest in domestic reform. By 1917, the site value tax movement in Oregon was dead.***

To explain the failure to gain site value taxation, U'Ren identified several causes: resentment of out-of-State financing of the campaign; the claim that the Oregon agriculture industry would be ruined by site value taxation; and the attempt to bring about the tax change in too short a period of time.[10]

Political Tactics. Throughout the period of active political consideration of site value taxation in Oregon, some advocated gradualism and others recommended making the change in one step. This early disagreement in political tactics remains unresolved. Proponents of gradualism in 1910 were reflecting ability-to-pay and benefit attitudes toward taxation. Although they favored taxing land more heavily than other property, they were also aware that other property represented wealth and required government services, and therefore should bear a tax burden. U'Ren's basic position, although modified somewhat on occasion, was that only land should be included in the property tax base and that this was best brought about in one step. He saw gradualism as defeatism; nevertheless, when he ran for

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The constitutional provision prohibiting the use of the emergency clause on tax legislation was created through initiative petition filed June 23, 1910, adopted by people November 8, 1910; amendment proposed by Senate Joint Resolution No. 10, 1911, and adopted by people November 5, 1912.

The Constitution of Oregon still contains the 1912 amendment which effectively prohibits placing an emergency clause on tax legislation. This, along with provisions for referral of legislation to the voters, prevents tax legislation from becoming effective prior to approval by the people if the legally required number of referral signatures are gathered (4% of votes cast for Governor at previous election). The effect has been to reduce legislative revenue-raising responsibility.

*In order to reclaim control over the property tax, the Oregon legislature was forced to introduce the constitutional amendment which removed its power to place an emergency clause on tax legislation. This amendment is still in effect in Oregon, the only State now restricting legislative tax action in this manner.

**Three counties proposed site value taxation and in each case the proposal was defeated. It was beaten by a vote of 23,901 to 11,146 in Multnomah County, by 3,787 to 1,827 in Clackamas County and by 1,909 to 1,113 in Coos County.

***Part of the reason for decline was the pacifist position of Henry George, the author of *Progress and Poverty*, the book containing the economic analysis of site value taxation used as the basis for the Oregon proposals.

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governor as an independent in 1914, he proposed and supported an amendment exempting only $1,500 of real estate improvements. Neither U'Ren nor his amendment received voter approval.

Looking at the 1908 Oregon situation from the perspective of the 1970s, it appears as though a compromise position taken early in the campaign might have been politically acceptable.[11] However, by the time it became apparent that this might be a desirable tactic, too many of the active political groups favoring a change had become committed to the whole loaf and the opposition campaign against single-tax radicals had gained in strength. It may be that the Fels Foundation financial resources and intellectual support were elements that made early compromise proposals more difficult, and the reduction of this aid, when compromise was proposed again, made success more difficult.

A substantial portion of the continued Oregon interest in LVT can be traced to the architects who graduated from the University of Oregon before 1950. Dean W. R. B. Willcox of the School of Architecture became very much concerned with the impact of the conventional property tax on the quality of buildings constructed and the small tax burden carried by economic rent.[12]

1970-71 Tax Study

A recommendation for the introduction of a uniform statewide land tax was a major aspect of the findings of a *Description and Analysis of Oregon's Fiscal System* completed in 1970.

Statewide Uniform Land Tax Recommended. The recommendation provided for a 2 percent statewide land tax to provide revenues to finance 100 percent of the costs of education from kindergarten through 6th grade.*

The adoption by Oregon of the 2 percent statewide land tax would give 27.7 percent property tax relief to urban homeowners and renters. (See p. 234 ff.) This property tax relief to homeowners would be provided without introducing higher income taxes or additional excise taxes on retail sales or business payrolls. Also, the procedure would avoid the use of a classified property tax that applied different rates to different types of businesses or real estate uses. Finally, the procedure would double the State's total contribution to the financing of public education—from about 20 percent of the total to 40 percent.

In addition to general economic, administrative and uniformity advantages, the use of a statewide land tax was seen to establish favorable conditions for utilization of the tax base provided by the large Federal government holdings of forest and grazing lands. A careful Federal study of the management of its lands had concluded that payments to State and local governments should be in lieu of normal taxes paid by private owners of similar properties in the area.[13] The adoption of a uniform and relatively substantial State land tax to finance basic education of *all* the children in the State would make a strong case for equivalent payments in lieu of taxes based on Federal land holdings, thereby extracting revenue not available under any other method of school finance.

Relation of Land Values to Provision of Educational Opportunities. Since the earliest days land values have been seen to be created socially. Because this was the case, and because basic education was fundamental to a productive society, the financing of basic education out of land values has been considered appropriate American economic and social policy.

The cost of basic education does not vary with land values of a school district. Many children who do not live in an area having a land value per child equal to the statewide per student average still require the basic education necessary to become a functioning social and economic citizen.* The simple and appropriate procedure to correct this situation is to apply a uniform land tax throughout the State to pay the costs of basic education.

A statewide uniform land tax rate helps prevent land-use decisions that are artificially desirable because of tax differences. True economic efficiency in the use of land resources of the State is stimulated by land tax equality throughout the State. In addition, of course, there is a fundamental justice in using an equal portion of the economic rent of land throughout the State to pay the costs of basic common education. Socially created land values and a sound fundamental education go hand in hand, and each should support the other.[14] The very unequal support that land gives to basic education disturbs this fundamental relationship.

Political Problems. Although LVT has a long history of support in Oregon and much of Oregon's land is owned by the Federal government and large individual and corporate owners, the Oregon 1970-71 Tax Study proposal failed to strike political pay dirt.

One explanation, and it is an old problem, is that the concept of the tax and land value relationships is too involved to be readily understood. To explain the concept would require a very active local group with considerable indigenous financial support. Neither the financial support nor the group has appeared on the scene.

*Limited to 1 through 6 in original report.

*In Oregon in 1967-68, some 300 code areas enjoyed property tax rates below 1.5 percent, while 366 code areas had rates between 2.5 and 2.9 percent. About 70 percent of Oregon property tax collections are used to finance the schools.

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Educational effort has been limited to a few talks before luncheon and professional groups. Newspaper, radio and television coverage of the proposal and later editorial discussions have been minimal. Several newsletters circulated by relatively small groups have urged their readers to support LVT proposals actively as a tax reform measure. Their impact has not been great.

The Governor's staff had the 1970-71 Study's LVT proposal, as well as its other proposals, before them when they developed the Governor's tax and educational finance reform proposal in the Spring of 1972.[15]* Although the LVT proposal was not recommended as such, the political combination included in the LVT Tax Study proposal made up a basic portion of the Governor's plan.

The political combination developed in the Tax Study's proposal was lower property taxes for households, somewhat higher real estate taxes for businesses, and substantially higher property taxes in certain areas on forest, range and farm lands, and vacant urban areas. The procedure utilized to bring about the Study's LVT political combination was as follows: the Governor's proposal recommended that only income-producing real estate be included in a statewide base and bear a uniform tax rate; and these funds plus additional State collections would finance 100 percent of the costs of providing average schooling to the children of Oregon.

The definition of income-producing property was not established in detail. Rather, the procedure was to define other property. Basically, this has been identified as property included in homesteads, owned and rented. Difficulties have arisen in identifying procedures to be used to give renters the benefit of a reduction of about 70 percent in property taxes on their living quarters.

The Governor's tax-school finance program received wide publicity and generally favorable comment from the media. However, the land-tax aspect was not picked up for special consideration. Since March 1972, several legislative and citizens' committees have been working through details related to the proposal, and again the land-tax aspect has not surfaced. However, real estate, forest and agriculture groups have become aware of what is involved in the recommendation, and they have been indirectly—largely through analysis of school control and employment levels in the State—highlighting adverse aspects of the Governor's program.

The Democratic party includes most of the Oregon legislators favoring the idea of LVT. This may be part of the reason why editorial writers have on occasion stated that Governor McCall's tax program has received more support from the Democratic party than from his own party. However, on July 29, 1972, when the liberal members of the Oregon Democratic party met to consider taxation, they failed to support a statewide LVT and instead looked toward higher business and individual income taxes.

*The program was adopted by the Oregon legislature in March 1973, and referred to the people for a vote on May 1. The proposal was able to attract only 2 out of 5 votes.

Tax Application Examples

The introduction of a uniform statewide land tax at a 2 percent rate would extend to the people of the State the benefits outlined above. The cost of the tax comes largely in the form of a temporary land price adjustment. Some of the adjustment is in the form of lower land prices, some in higher earned incomes and some in an increased demand for land because construction is stimulated.[16] None of the adjustment is in higher prices or costs for land per unit of service or production.

Residential. In this example, a typical urban home is taken to have an assessed value of $20,000 and to be located on a $4,000 lot. The property tax rate for schools is taken to be the 1969 Oregon State average of 1.73 percent. A 1.73 percent rate applied to a $24,000 property becomes $415 of property taxes to support the schools. Using the revenues of a 2 percent uniform statewide land tax to pay all the costs for schooling in grades Kindergarten through 6, would reduce school costs to be covered with property taxes per $24,000 residence from $415 to $300. Property taxes on residences used to finance education would be reduced by 27.7 percent. (See p. 235 ff.)

With a 2 percent State land tax, the land would continue to bear the amount the local district places on land to finance education above the 6th year. This local tax would, on the average, have a rate of 0.92 percent. Therefore, the average tax rate on land for schools in urban areas under a program of a 2 percent uniform statewide land tax would increase from 1.73 percent to 2.92 percent.

Agriculture adjustments. Agriculture is an industry where the impact of a 2 percent State land tax requires softening legislative provisions. For other businesses the adjustment would not be difficult, as total property taxes would remain about the same.

The problem in the case of agriculture arises because a large portion of fixed investment is in land and because the prices of wheat, beef, etc., are set outside of Oregon and outside the control of the farmer. A decline in the value of land resulting from the 2 percent State land tax will only benefit farmers entering the business or expanding their operations.

The transition stage in the application of a State 2 percent land tax on agriculture could be eased in a number of ways.

One way would be: all land occupied by individual farmers earning more than two-thirds of their

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income from the sale of products raised on the farm would have the land tax rate increased by 10 percent of 2 percent a year, or 0.2 percent a year. The full 2 percent State land tax would not become effective, on the full and true cash value of the land meeting the above conditions, until the end of a 10-year period. On all other land used for agriculture, the 2 percent rate would be reached in two annual steps of one percentage point a year.

Base of Statewide Land Tax in Oregon. The Oregon land values that would be included in the base of a 2 percent statewide land tax consist of:

$4,450,000,000	value of taxable locally assessed land
425,000,000	zoned land and other reductions from full cash value
640,000,000	land of utilities
375,000,000	undervaluation of vacant lots
600,000,000	base upon which the Federal government would make payments in lieu of property taxes[17]
$6,490,000,000	total land values to bear a 2 percent tax for 100 percent financing of basic education (Kindergarten through 6th grade)

The amount raised by the 2 percent State land tax and the payments in lieu of tax on Federal lands would be about $128.8 million.* The 1969-70 school tax levy after tax relief plus the county school levy, also after relief, was $298.60 million; about $130.4 million of this total was needed to cover education for grades K through 6.

The revenues of a 2 percent land tax at $128.8 million are approximately equal to the $130.4 million total tax levy cost of education for grades K through 6 in 1969-70. The apparent revenue shortage could be covered by leaving to local money-raising efforts some of the expenditures made in the richer districts and by savings arising from centralized purchasing and the reduced birthrate.

Examples of Effect of Two Percent Statewide Land Tax

Residential Property.

$ 4,000	value of lot
20,000	value of house
$ 24,000	value of house and lot
1.73%	current average rate used to raise funds to finance schools
$ 415	average amount paid in 1969-70 on a $24,000 residential property

Under the proposed 2 percent State land tax to cover *all* costs of education in K through 6, the property taxes on the same residential property work out as follows:

$ 4,000	value of lot
2.92%	tax rate (consists of 2 percent State land tax to finance all costs of education in grades K through 6 and 0.92 percent rate applied to taxable values to provide revenues equal to those of 1969-70 to finance grades 7 through 12 schooling (land is not brought up to full value as it is for 2 percent State land tax))
$ 116	tax due on lot to support all primary and secondary education
$ 20,000	value of house
0.92%	tax rate to support education in grades 7 through 12
$ 184	tax due on house to support education in grades 7 through 12
$ 300	total property tax on $24,000 residence to support primary and secondary education under the proposed 2 percent land tax
$ 115	dollar reduction of property taxes on typical homestead to support education brought about by the introduction of a statewide land tax dedicated to support of education in grades K through 6
27.7%	percentage reduction

Business Property

$250,000	value of business property
1.73%	current average property tax rate for education
$ 4,325	property taxes for support of education under existing procedures

Situation under a 2 percent State land tax to pay 100 percent of education in grades K through 6:

$125,000	value of land
2.92%	tax rate on land (includes broader base only for 2 percent State land tax)
$ 3,650	total taxes on land
$125,000	value of building
0.92%	rate on building
$ 1,150	total taxes on building
$ 4,800	total school taxes under 2 percent State land tax to pay 100 percent of costs of education in grades K through 6 and continuation of present procedure to finance education in grades 7 through 12
$ 475	additional property taxes under 2 percent State land tax

*52.2 percent of Oregon's land area is Federally owned.

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Agricultural Property.

$200,000	value of total farm and farmstead
1.73%	current average property tax rate for education
$ 3,462	property taxes for support of education under existing procedures
$165,000	value of land
2.92%	tax rate
$ 4,818	taxes due
$ 35,000	value of buildings and personal property
0.92%	tax rate
$ 322	taxes due
$ 5,140	total taxes for education
$ 1,678	additional taxes under 2 percent State land tax to support education.

Conclusion

The adoption of a statewide land tax of 2 percent would:

(1) provide a very substantial increase in State support of primary and secondary education in Oregon;

(2) assure equal educational opportunity during early formative years;

(3) decrease by about 27.7 percent the real estate taxes going for education paid by a typical urban family owning its home;

(4) decrease substantially the property taxes resting on business improvements and inventories and in this way increase employment opportunities;

(5) set in motion forces that would reduce speculation in agricultural land;

(6) increase use of Federal landholdings as a tax base; and

(7) return to the basic American idea that land values and basic education are closely related.

Land Tax Issues

The discussion of the Hawaiian use and Oregon consideration of LVT has brought to the surface a number of particular problems and tentative approaches to acceptable solutions. This section discusses some of these points plus others that are closely related to the use of site value taxation.

Statewide Land Value Tax

The use of a statewide LVT reduces the economic rent or surplus flowing to owners of natural resources. An effect of these reduced capital values is lower imputed interest cost. The collection of revenues from a statewide land tax will also permit service levels of State and local governments to continue without raising taxes that increase costs or that reduce directly the purchasing power of citizens, except for those who are unable or unwilling to utilize the land completely.

The economic rent or surplus arising from control of natural resources, especially land, has been increasing as population and land-use needs (from recreation uses to residential sites) have been expanding. This increased surplus has been rapidly capitalized into higher prices, because the gains are conceived to be permanent.* The higher the economic rent arising from a natural resource needed to carry out production or to provide directly the basic needs of the population (e.g., shelter and transportation), the higher the costs or the lower the real wages of owners of little or no resources.

The principle of economic rent (its source, its relation to cost and its ability to bear taxes without decreasing efficiency of resource use) is one of the best established and most generally accepted of all economic concepts. The failures around the world to completely use it to meet the cost of government and to increase economic welfare is unfortunate. Recognition of the situation by State legislatures through use of a modest land tax seems appropriate. Efficient use of resources means a decrease in cost per unit and increased productivity. This efficiency is expected to result in a higher level of human welfare.

The efficient use of land and natural resources makes up an important portion of overall economic efficiency. A statewide uniform land tax will not assure most efficient use of land and natural resources but it will help. This effect of a land tax results from:

- increasing the out-of-pocket cost of keeping land idle, vacant or substantially under-utilized;**
- decreasing the amount of capital required to go into business;
- reducing the number able to live directly off economic rents, bringing about more complete use of human resources; and
- permitting reduction of taxes on human effort and reproducible goods, and therefore a re-

*Land prices continue to increase more rapidly than the general price level.

**Here the higher costs on others imposed by forcing residential construction "leap frogging" is the appropriate consideration when relating land tax pressures to freedom of use of private property.

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duction of work deterrents and an expansion of supply.

It is often said that the only voters who would be hurt by the imposition of a major statewide uniform land tax would be the land speculators; unfortunately, they are among the most powerful and effective pressure groups in local politics.

In Southfield, Michigan, the impact of an outside assessment of property, under instructions to make land values equal the real portion of the market value of the entire property, was a doubling of the assessment of land and therefore the doubling of the taxes paid on land and a sharp reduction of the taxes paid on improvements. Consequently, Southfield experienced a very substantial boom. The grateful citizens three times reelected the mayor who introduced the tax shift. At least in Southfield, in the 1960s, land value taxation gained citizen support and was introduced without constitutional amendments providing for higher assessed values or higher tax rates on the portion of real estate consisting of land.[18]

To a degree, every owner of real estate is a land speculator. Land typically makes up a substantial portion of the capital value of a real estate holding, and an increase or decrease in its value is economically important to the owner. Moving the property tax away from improvements and toward land helps the owner of highly developed land at the expense of the owner of underdeveloped land. However, as Hawaiian experience demonstrated with regard to residential property, this kind of shift can cause political difficulties because the owner of a homestead with modest buildings pays a relatively high tax under the graded property tax and is apt to be economically less well off than the owner with good income-producing buildings.

Land Inventory and Tax Capitalization

One of the more serious logical flaws of land value taxation analysis is that the tax is seen as reducing the inventory of land held because the cost of holding is increased; on the other hand, the tax is seen *not* to be an economic burden because the price of land is reduced by the capitalized value of the land-tax payment. Of course, expectation that the land inventory will decrease with the introduction of land value taxation is based on the immediate cost of required land-tax payments. Elimination of the added cost of holding land arises from capitalizing land tax payments, causing land to fall in price.[19]

Urban Efficiency

The efficient use of land in urban areas possesses the potential of decreasing both the economic cost of carrying out production activities and the human inconvenience of urban living. The efforts of city planners are aimed at similar goals. Large expenditures from tax funds have justifiably been allocated to carry out these functions. The task has proven to be next to impossible as long as individual incentives under existing law and varying land tax rates within a metropolitan area provide economic pressure for decisions opposite to those required to make better use of land. The use of a statewide uniform land tax as well as a local graded property tax would complement public expenditures to improve the urban environment. In addition to improvement of urban environment liveability, the efficiency with which business firms can function in the urban setting would be bettered.

A number of regional research studies explain urban sprawl by the lower land taxes in suburban areas and the relatively cheap private transportation provided by the passenger car.[20] The low direct money cost of withholding land from use because of low land taxes is identified as a cause of leapfrogging by land use economists. Municipal budget officers point to subsidization of municipal services and access roads in outlying areas by residents of the inner city. Property tax specialists point to the undervaluation of land for tax purposes in new and developing areas and high tax rates on buildings in declining areas as another element working to reduce the liveability and efficiency of the American city.[21]

A uniform statewide land tax and a local LVT can only be a first step in remedying the land-use aspect of the urban crisis, but they are basic. The use of site value taxation at the State and local levels sets in motion many pressures to bring taxable values given to other property.* Even without a local graded property tax, a uniform State land tax brings about a higher tax rate on land than on other taxable property. The intensity of the effect of this action would depend on the rate. However, at all rate levels it would discourage land holdings while encouraging highest and best use of land. The basic economic principle of efficient use of resources would be advanced. The Hawaii experience has partially demonstrated that this works.

Another basic economic principle relating to tax-

*Because the State would benefit only from the property tax rates applied to land, the States would be most anxious to move these values up to make them uniform and comparable throughout the State with values set on other taxable property. This would be the approach required to maximize revenues and reduce political criticism and would also assure that land rent, wherever it arises in quantities that would be capitalized in excess of an established exempt amount for one owner, would pay its tax share.

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ation policy is tax neutrality—the way taxes are collected should not induce an economic decision-maker to make inefficient use of resources.

Tax Neutrality

The granting of property tax exemptions to new industries is an example of a tax policy aimed at inducing business decisions. Established firms are required to subsidize the new ones. The levy of a statewide land tax can encourage new investment without increasing the tax burden of old firms above those of new firms, except to the extent that new firms utilize land more completely.[22]

The stimulation to new industry arises from more efficient use of the economic surplus being paid as land rents. Land rents collected as taxes are used to support voter-determined services rather than for the payment of economic rent to the lucky, to unproductive land hoarders, and to land speculators. If the level of government services remains constant, the additional land-tax collections would permit reductions of other taxes that increase costs and that discourage risk-taking and the intensity of human effort.

The use of a uniform State land tax acts to (1) reclaim economic surplus for general use, (2) reduce capital required for a new business and thus stimulate competition, (3) increase the efficiency of the city in providing liveability and improving industry's environment and (4) expand government revenues and encourage economic growth without the grant of special favors or subsidies.

Opposition of Farmers to a Statewide Uniform Land Tax

The farmer is understandably the most active opponent of taxes on land values. This was true in Oregon in 1912 and was proven true again at a mass meeting in Salem, Oregon in December, 1970.* Opposition to LVT from farmers arises from the impacts of the two basic changes involved in a uniform statewide land tax:

1) The funds to be collected, as is currently the case, are destined largely for the support of primary and secondary schools. The number of children per $100,000 of land value tends to be smaller in the country than in the city. Therefore, under a statewide uniform LVT the portion of total school support coming from rural areas increases.

2) The use of only land in the base appears to the agricultural community as a tax aimed at agriculture, for land represents a large portion of the capital required to carry forward farming activity.

The opposition of the agricultural community to LVT could undoubtedly be eliminated by guaranteeing that land taxes would not increase. If this guarantee is made, it should be hedged somewhat. Some possibilities are:

1) A tax paid in lieu of the uniform land tax would increase or decrease as a statewide index of agricultural land prices changed.

2) Agricultural land, to qualify for the in-lieu payment, would have to provide over 50 percent of the income of the owner. In the case of corporate-owned land, the corporation would have to qualify as an agricultural corporation. The basic requirements a corporation would have to meet to qualify would be:

a) Eighty percent of the corporate profits arising in the State came from the sale of agricultural products grown on the land cultivated in the State.

b) Agricultural activity is judged each year by the State College of Agriculture to be as intensive as is appropriate for the type of land and existing economic conditions.

Value of Agricultural Land

There are a number of arguments for the favorable treatment of agriculture in the application of taxes:

(1) The farmer sells his products in a highly competitive market that is dominated by changes in supply that cannot be foreseen or adequately guarded against. Because of this situation, it is argued that agricultural selling prices cannot reflect changes in taxes and therefore agriculture, unlike other businesses, is not a tax conduit but a tax absorber. Obviously, this is only a half truth, for other costs of the agricultural industry have been generally increasing, including the price of land. These costs must be covered, or agriculture could not pay its bills.

(2) Land, the basic production base of agriculture, has a price largely determined by demand in relation to supply and not by cost of production. Although machines, motor fuels, fertilizer, feeds, seeds, etc., tend today to loom larger in farming cost accounts, land still usually dominates. The unreproducibleness of land causes its price to be determined by demand based on earning expectations.

The importance of land to agriculture and the nature of its cost determinants cause it to greatly

*Meeting called by the State Department of Education. A good deal of farmer leadership comes from older farmers who favor high land prices because they are about to sell out or to live on rents.

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absorb both agricultural profits and losses. The more profitable the general agricultural industry is, from whatever source, the higher the price of land. Conversely, a reduction of agricultural earnings is reflected in lower prices of land. This reflection of lower agricultural profits in lower prices of agricultural land is softened by Federal income tax provisions. This situation would not be particularly important if farms remained under one ownership and did not expand. Farmland purchased on the market has a price that reflects all of the following upward pressures:

- greater earnings that result from government price support programs;
- increased productivity because of new farming techniques;
- continuing inflation and uncertainty of general industrial conditions in the future;
- land ownership tax favors granted to high-income corporations or individuals receiving income from other activities; and
- pressure to enlarge farming operations to enhance efficiency and increase productivity.

Farm asset values consist largely of real estate holdings. In 1972, real estate comprised about two-thirds of the $335 billion total. Gains in the value of farm real estate adjusted for inflation were about 3 percent a year during the 1966-71 five-year period. The $223 billion of farm real estate in 1972 bore a $30.7 billion indebtedness.[23]

These real estate holdings of the agriculture industry consist largely of land. The annual cost of holding this land consists of the interest cost (imputed or actual) of the funds required to purchase the land and the land tax payments assessed against the property. The net worth of the land holder can be increased by a decrease in interest rates or a decrease in land taxes.

If interest rates decrease, land values tend to increase. The increase in value permits raising the same quantity of land taxes while applying reduced rates. It is the real interest rate and not the money interest rate that that has this effect. The 8-to-9-percent money interest rates of 1969 were low real interest rates under the existing 5-to-6-percent price increases. Because land acquisition is generally a long-term commitment and a mortgage contract is a long-term interest rate commitment, changes in general price levels and interest rates affect the market values of both the mortgage and the underlying asset, land. Also, if land increases in dollar price at a more rapid rate than other assets purchased with borrowed funds, the real interest rate required of land purchasers is relatively low. This situation stimulates continued land speculation and higher land costs.

The rate of the land tax and the going interest rate applied to total land value represent the fixed cost to agricultural production arising from the use of land. If this cost cannot be met, the value of the investment in agriculture decreases until the rate of return covers the interest costs of the new investment plus the reduced ad valorem land tax. If earnings are more than the costs of interest and land taxes, the capital value of the investment in agriculture increases until the imputed interest on the value absorbs the higher income. At the same time, as higher costs due to increasing imputed interest occur, the ad valorem LVT that would be collected from applying old rates would increase. If additional government revenues are not needed, the rates could be reduced. Reduced land-tax rates would increase the portion of farm fixed costs made up of imputed interest expense. A decrease of interest rates would increase land values and decrease the tax rates required to raise the same quantity of revenues.

If earnings are less than costs, the asset declines in value. The interest cost to the owner per dollar of market value of the investment increases as the value decreases. On the other hand, the tax rate must increase to prevent a reduction of tax revenues.

When a farmer purchases agricultural land bearing a low tax, his imputed and actual interest cost is greater than if he purchased land with a high tax. This increase arises because land bearing a low tax produces more after-land-tax income to cover interest payments. It increases the market value of the land and therefore increases by a like amount the capital required to gain control.

As noted above, when earnings worsen the owner does not experience a decrease in his interest costs, but the land-tax cost does decrease under these circumstances. Therefore, with everything else equal, the farmer owning land to which a high land-tax rate applied is in a preferred economic position, analogous to an owner with a 100 percent mortgage that decreased in size and annual cost when conditions deteriorated.

Another way of looking at the division of fixed costs that must be paid to enjoy the use of land is to look at the quantity of funds required to gain control. When the land tax is high and absorbs a goodly portion of the earnings, i.e., land rent, the funds required to purchase are less than when the land tax is low. The higher land tax is the equivalent to the purchaser of the land of a grant of credit equal to the amount by which the price of the land is decreased

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by the land tax. The cost of the credit grant is the annual payment of land taxes.

The effect of these economic pressures is to push farming toward the minimum of profitability. The situation would only be changed briefly if prices of products increased sharply or if taxes were sharply reduced or if government assistance were sharply increased. Land would continue to be the great absorber of profitability when profitability is calculated as a return on the current capital value of the enterprise as judged in the market.

Betterment Tax

The building or widening of an access road can increase substantially the market value of certain land holdings. The changing of a zoning category can also increase certain land values. If overall demand for land has not changed, these same actions will decrease the value of land held in other areas by about the same amount. The actions of the community through its highway and zoning officials has changed the specifications of the commodity that comes under the general classification of land. In some cases, the new commodity is of greater value than the old, and in others it is of less value.

Against this background one can evaluate a betterment tax, i.e., a special tax levied to remove much of private gain from higher land prices due to government action, and a general ad valorem land tax. The betterment tax looks only at those gaining directly from a particular action. This must be, for to follow to their final resting places all the impacts leading to reduced and increased values is impossible. The obvious public "attitude" toward a landowner making a financial killing as a result of a public action can be exploited more effectively through a betterment tax than through a land tax. Moreover, by taxing this gain the public fisc is taking something that rightfully belongs to government because of public action. What is being done is to gather additional funds from those currently in an improved economic situation in a manner that meets general social approval.

The general land tax, extending over an area as large as a State ideally takes account of a very large number of impacts affecting the value of land. It can take into consideration, for example, both the increase in value of suburban land due to better access and the decline in the value of central-city land due to the rush of people and business to the suburbs. In this sense, the land tax is a more equitable approach to "government created" value than a betterment tax. This advantage though apparent to economists, is generally believed to increase popular acceptance in only a minor way.

The choice of whether to have a betterment tax or a land value tax is a difficult one. Under current conditions one must accept the betterment tax while working on the development of sufficient understanding of land-value taxation to make it acceptable in the future.[24]

Economic Equality

"A good market in land, one built around prices, is of utmost importance in getting the most productive use of something we must all have, space."[25] Land differs from other broad categories of wealth because a high price or large profits from its control cannot stimulate more production. To assure wise use of land space, the user must pay the full economic productivity of the land, but it is not necessary that this payment be received by the owner. The owner need not receive the full payment because the payment is not needed to provide a maximum supply. A considerable part of the price can go to government as an ad valorem land tax without eliminating the level of return required to induce the owner to use his full abilities in the area of land investment and development.

The capitalistic system is constantly endangered by two basic problems: (1) power becomes too concentrated to permit democracy to work and (2) rewards are not necessarily distributed on the basis of effort and ability. The use of the land tax at uniform ad valorem rates helps capitalism overcome both of these weaknesses. Land-value taxation cannot be expected to carry out this continuing battle alone. For example, tax shelters under the income tax also need to be eliminated. Also persons must have an equal opportunity for an education and employment. In addition, production and marketing monopolies need to be controlled.

The great usefulness of land taxation is that it requires a minimum of interference with individual decisions in making its contribution to an effective democratic-capitalistic economy.

The relation of power to large land holdings is well documented. Undoubtedly this relationship has shifted from the days of the great land barons. However, it remains true that land ownership in a city, in a suburb or in the country is power. As population and land uses expand, the monopoly power that land ownership always provides increases. Desirable and efficient sites for housing and industry are always limited. The land tax, by increasing the cost of site ownership, pushes use toward best use. Ownership decisions that withdraw land from the market's determination of use become too expensive to be viable under a substantial LVT.

When natural resources, including land, increase rapidly in value, the increase is socially oriented and therefore an unearned increment. The wealth

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that can arise in this fashion is a windfall. This is wealth-or-income-creation that can bear a heavier tax than other increases in economic well-being. Application of a special tax to pick up all or a portion of windfall gains arising from a shift in government policy is considered equitable and justified. What has been created by the community through legislative action can also be taken away in whole or in part by legislative action.

This same basic concept of justice is applicable to increases in land values that arise from governmental decisions to change zoning, to change transportation patterns, to build schools or to construct sewers. The increases in land values arising from these actions, that were determined by a society with growing needs and expanding wealth, are partially reclaimed for social use when a statewide land tax is applied. The unearned gains of the lucky, powerful or wise landowners are partially shared when a uniform and a relatively substantial land tax is applied.

Resource Use And The Property Tax

Current property tax procedures subsidize the misuse of land in urban areas. Some shortcomings can be avoided by making the property tax a uniform statewide tax. Others remain as long as real estate other than land is included in the base.

Land misuse is caused by light taxation of vacant land. This arises because of:

- the practice of placing too large a share of total value of a property on its improvements;
- the frequent practice of not changing the assessed value of a piece of land until it has been sold. (The value of urban land is estimated to be increasing by about 15 percent a year, but assessed values do not reflect this situation.[26])
- Special greenbelt legislation placing a lower value on land than that of highest and best use.

The conventional property tax encourages the misuse of land by placing a burden on new buildings and more intensive investment in improvements, thus tending to cause land to be utilized less fully than appropriate.[27] One can avoid costs under the traditional property tax by letting improvements run down. This would not be the case if only land were taxed for general purposes (and buildings merely paid service charges to cover their allocated portion of total cost of government activities, e.g., police and fire protection).

Site value taxation possesses a basic economic neutrality that is generally considered to be a desirable tax quality, because use of the land-value tax does not change decisions relative to development. "What was the optimal development in the absence of the tax will remain optimal in its presence."[28]

FOOTNOTES

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[3]C. Lowell Harris, *It's Time to Equalize the Load on the Workhorse of Local Finance* (New York: Columbia University) p. 2.

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[6]Ibid., p. 136.

[7]James D. Barnett, *The Operation of Initiative, Referendum and Recall in Oregon* (New York: The Macmillan Co., 1915), p. 5.

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[21]"Municipal Bootstraps," *Nation's Cities*, February 1972, pp. 12-39.

[22]Paul E. Alyea, "Property-Tax Inducements to Attract Industry," in *Property Taxation-USA*, Richard W. Lindholm, ed (Madison: University of Wisconsin Press, 1967), pp. 139-158.

[23]Federal Reserve Bank of Chicago, Agricultural Letter No. 1161, March 17, 1972, (Gary L. Benjamin, Agricultural Economist).

[24]R. Denman, *Public Appropriation of Unearned Land Values*, Occasional Paper No. 4, Faculty Commerce and Business Administration, University of British Columbia, 1969.

[25]Lowell Harris, "Land Value Taxation: Pro" *International Property Assessment Administration*, Vol. II, 1970 (International Association of Assessing Officers, Chicago, Ill.), p. 62.

[26]"Builders figure land prices rise about 15% a year and in a conventional new home form about 25% of the cost." *Wall Street Journal*, March 23, 1972, pp. 1, 18.

[27]"Heavy Property Taxes on Buildings Discourage Both Their Upkeep and New Construction." *Fortune*, February 1972, p. 171.

[28]*Some Relevant Considerations for Metropolitan Fiscal Policy*, (Urban Land Research Analysts Corporation, Lexington, Mass., February, 1970), p. 80.

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Appendix I

The Effect of Property Taxation on Industrial Development in Major Cities—A Survey

We must rely upon our local property tax for 65 percent of our revenues. In a city where we already have one of the highest and most confiscatory rates in the country, we were forced to raise the rate of taxation by almost 10 percent. This increase means that an owner of a $20,000 home will pay about $1,850 in annual property taxes. We have reached a point where our property tax has only hastened the flight of industry, commerce, and the remaining middle class homeowners out of Newark. The excessive rates we are forced to impose have actually been the cause of abandonment, deterioration, and a decline in our tax base. The stark reality finds buildings being abandoned at the clip of one a day.

Mayor Kenneth Gibson
Newark, N.J.

Because of rising concern over the effects of the property tax on urban economic and industrial development, the ACIR staff surveyed local leaders to elicit their impression of those effects in their communities. They were asked two questions:

1. *Do you have any evidence that would suggest that rising property taxes have been detrimental to economic development in your city? If so, please cite a few specific examples of this adverse effect.*

2. *If significant economic development has occurred in your city during the past ten years, has it been accompanied by property tax concessions? Please describe the types of tax incentives offered. If other kinds of incentives have been offered (for example, industrial bond financing), please indicate this also.*

Questionnaires were sent to the local Chamber of Commerce, the largest bank and the city finance department in each of 12 high-property tax cities and 12 low- or medium-property tax cities.* High-tax cities surveyed were: Baltimore, Boston, Chicago, Denver, Hartford, Los Angeles, Milwaukee, Minneapolis, New York, Newark, Philadelphia and Providence. Low- or medium-tax cities included were: Atlanta, Cleveland, Dallas, Detroit, Louisville, Memphis, Miami, Norfolk, Oklahoma City, St. Louis, Seattle and Washington, D.C. Tables I-1 and I-2 summarize the responses.

*Inquiries were also sent to the local labor council in each community, but none responded.

Tax Concessions

Several of the eight responding high-tax cities had granted some kind of special tax concession to attract industry but only two cities had used tax concessions extensively. Of the nine low-tax cities, only one made real estate tax concessions. One other low-tax city had previously granted concessions and had abandoned the practice because it attracted the wrong kind of business.

Nature of Evidence

Two respondents gave specific examples of how the property tax had affected industrial development. In one city, which is separated by a river from its neighbor in another State, the respondent reported much more industry coming to his side of the river. He indicated that the principal difference between the two sides was that the other State relied more on the property tax while his State relied on the income tax.

A respondent from a city located in a State that taxed inventories observed that warehousing was growing more rapidly in a neighboring city where

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Table I-1

Summary of Responses to Survey on Effect of Property Taxation on Economic Development in Major Cities

Type of Organization	12 High-Tax Cities: Number Responding	12 High-Tax Cities: Number Indicating Adverse Effects	12 Low- or Medium-Tax Cities: Number Responding	12 Low- or Medium-Tax Cities: Number Indicating Adverse Effects	Number of Replies From all Cities
Chamber of Commerce	7a	6	9	3b,d	16
Bank	3	3c	3a	2d	6
City Finance Department	3	1	3	0	6
Total Replies	13	10	15	5	28
Total Cities Represented	8	(See Table I-2)	9	(See Table I-2)	17

a) These numbers exclude a reply which consisted simply of forwarding a copy of the letter from another organization in the survey and one that did not attempt to answer any questions.
b) One of these respondents indicated that high property taxes in an adjacent State were hurting the other State and helping the respondent's State.
c) One respondent indicated some uncertainty but at the same time said he was very much in agreement with the letter from the Chamber of Commerce of the same city, which insisted very strongly that the property tax did hurt.
d) The remarks of one of these respondents applied only to the inventory tax, which was not imposed in nearby States.

inventories were not taxed. (This city's property tax was low enough that there was little reason to believe that the tax would have had any effect—except that the tax base included inventories.)

Four respondents (all from high-tax cities) asserted without reservation that high property taxes had hurt economic development in their cities. One named several projects that proceeded only after the city agreed to a tax freeze. Another mentioned that its few economic development projects were undertaken with special tax agreements. A third respondent referred to an extensive survey showing 16 percent of firms queried indicated that high property taxes were a factor in their decision to leave the city.

Table I-2

Detail on "Adverse Effect" Responses To Survey On Effect of Property Taxation On Economic Development in Major Cities

	High-Tax Cities	Low- or Medium-Tax Cities
Number of Cities from which replies were received	8	9
Number of cities in which all replies (one or more) indicated adverse effects	5	2b,d
Number of cities in which no reply indicated adverse effects	1	5
Number of cities in which there was a difference of opinion expressed by the respondents	2	2

Note: Refer to footnotes on Table I-1.

On the other hand, respondents from three cities (two high-tax and one low-tax) found little indication that the property tax was the reason for firms leaving their cities. The finance department of one city had obtained a list of businesses that supposedly relocated to the suburbs because of the property tax. None of these companies, when queried by the finance department, suggested that the property tax had any effect on relocation. Another respondent reported a survey of 17 companies that had moved from the city to the surrounding counties. Only five of these firms mentioned taxes among the reasons for moving out and they gave other reasons as well. In a survey of 1,100 local manufacturers in another city, only 17 of 874 who responded gave tax savings as a reason for locating there originally. More frequent answers were "near home," "near markets" and "availability of land." When asked the major advantages and disadvantages of their current location, taxes were mentioned only 18 times. Yet, when asked what the area could do to make their current location more attractive to present firms, 224 said "improve taxes"; and when asked what could be

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done to make the location more attractive to outside firms, 185 said "improve taxes."

The Role of "Other Taxes"

Several replies indicated that other taxes or the level of *total* taxes was a problem for industrial development. One banker remarked that the "real problem here for economic development relates to the business and occupation tax."

One Chamber of Commerce spokesman made an especially revealing comment:

> As we are all well-aware, State and local business taxes constitute a relatively small cost of doing business. Frequently, however, businessmen judge the community and governmental attitudes toward business at least in part according to the level at which business is taxed . . . . From a typical businessman's point of view the key factor is the *total* amount of taxes paid as a result of its operations in a particular location rather than the *particular type* of tax he pays. . . . In fact, much of the talk of replacing the local property tax with some other type of tax is frequently viewed by the businessman as more of an academic or philosophical exercise, with relatively little meaningful impact on business. . . . While the direct impact of property taxes is very self evident, other taxes may have more indirect, but nonetheless important, impact on business costs. For example, personal income taxes, especially if they are at a relatively high level . . . become a very real cost of doing business. This results from the fact that companies frequently need to pay a premium to offset these higher taxes in trying to recruit management talent. And while many businessmen philosophically might favor a sales tax over other forms of taxation, it is important to realize that sales taxes can have an important impact on business. It is estimated that businesses in . . . pay 10-20 percent of all sales taxes collected in the State. In addition, sales taxes add to the general cost of living which is at least indirectly related to the cost of labor. These examples further illustrate the point that the total tax impact is the relevant point of focus rather than the particular type of tax.

Another respondent said the second greatest reason for businesses leaving his city was its high personal and corporate income tax.

Nontax Factors

Other respondents mentioned other factors that influence industrial location. One Chamber of Commerce spokesman remarked that prospective businesses generally would evaluate the tax situation along with wage rates, utility costs and freight costs and then review the total cost for different locations. Respondents from two cities pointed out that assembly-line operations require extensive use of land and that the high cost of land in the central city effectively rules out this type of industry. The cost of land is high because its price is bid up by investors wishing to construct buildings to provide offices, for which many firms are willing to pay high rents. One respondent cited another reason for the high cost of land. "It seems that you can't clear abandoned housing or an old three-story plant from land, cart away the rubble, and come out with $25,000 per acre"—the cost of land in the rural areas of a neighboring State. Another respondent expressed the opinion that "nontax factors, e.g. suitable areas for expansion, existing facilities not easily adaptable to technological changes and current needs, less dependence on public transportation, greater emphasis on air and highway transportation, requirements for employee parking, and shifts in supply, distribution, residential, and market patterns, among others, have limited the kinds of industrial and commercial developments for which central cities have been able to compete successfully." Finally, a respondent expressed concern about the effect of high and rising construction costs in his area upon the attractiveness of his city as headquarters for business firms.

Summary

The survey results indicate that some local officials and businessmen believe the property tax is detrimental to economic development of urban areas. As expected, this kind of response usually, but not always, was from high-tax cities. But many respondents were aware of other factors affecting the industrial development of central urban areas and tended to view property taxes as only one aspect of the situation.

This survey of opinion is in accord with the Commission's earlier observation that:

> Although the generally lower tax rates of suburbia cannot be cited as the primary factor responsible for industrial dispersion outside the central city, the point must be emphasized that within the State, and more importantly within the metropolitan area, tax rate differentials can conceivably become the "swing" factor for the plant locator *once the management has decided to relocate within the area.* Tax differentials can also have a marginal influence on the location of firms moving into the region.[1]

While the property tax usually reinforces all the

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other social and economic factors pushing high-income families and business firms out of the central city into suburbia, it is more a symptom than a cause of central-city fiscal distress.

FOOTNOTE

[1]ACIR *State-Local Taxation and Industrial Location* (Washington: GPO 1967), p. 69-70.

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Appendix J

School Spending and Pupil Achievement

I'm fascinated because . . . When the Coleman report is cited to promote further integration or busing its always pooh-poohed as an inadequate base. But then when someone proposes further expenditures in poor schools, we hear that Dr. Coleman was right all along and really what we need is more integration, so I'm confused about what I should think about it.

Howard Miller
The Advocates
February 29, 1972 PBS

Recent academic studies of school effectiveness have been used to buttress widely divergent proposals for reform of the public school system. But a review of these studies by Commission staff suggests that our understanding of how schools work is still too rudimentary to provide firm guidance to policymakers. Taking care to make the proper qualifications, the following specific conclusions may be drawn.

Conclusions

Schools Do Make a Difference

None of the research studies examined by the staff has found a complete absence of statistically significant relations between school characteristics and pupil achievement. This is true despite the fact that all of these studies have used data that make it difficult to find such relations, even when they exist.

Of the 24 different studies reviewed, including 14 summarized by a Rand Corporation team, one-third use data from the well-known Coleman Report, *Equality of Educational Opportunity*. Another five employ statistics gathered for the U.S. Office of Education's Project Talent. Thus the number of independent studies is actually much smaller than it would first appear. And the ability of different researchers to draw quite disparate conclusions from the same data illustrates graphically the limitations of our analytical techniques.

All of the studies surveyed used the attainment of cognitive skills—logical ability, memory for facts, understanding of rules and principles—as the test of school effectiveness. Yet, the tests to measure pupil achievement in these areas are known to have serious deficiencies. At best, they measure only certain basic skills and make no pretense to measure real breadth of knowledge or depth of understanding. The Coleman Report data, for instance, include no test scores in foreign languages, advanced mathematics or English literature. There are also many non-cognitive qualities which may be equally important or more so—socialization, independence, maturity, pride, compassion, creativity. But there has been virtually no quantitative research on how the schools affect these other pupil traits.

Teacher Affects Student Achievement

Although different researchers have used varying formulations of the concept, each study that tests the significance of individual teacher variables, finds that some teacher-related factor has a significant impact on achievement. These variables are: the percentage of teachers in the upper salary quartile *(Benson)*; teacher experience *(Michelson and O'Neill)*; undergraduate institution attended *(Michelson)*; teacher attitudes *(Guthrie)*; teachers' verbal ability *(Bowles, Guthrie and Jencks)*; and percent of teachers with a master's degree *(Perl)*.

Out of 16 similar studies surveyed by the Rand Corporation for the President's Commission on School Finance, only two *(Kiesling (1969) and Smith)* found no teacher variables to be important.[1] The remainder found some teacher variables to have a significant effect on learning—particularly experience: *(Thomas, Hanushek (1968), Katzman, Burkhead, Kiesling (1970), Levin and Michelson)*; average salary *(Cohn, Raymond and Averch)*; starting salary *(Thomas)*; and verbal ability *(Hanushek (1968), Bowles and Hanushek (1970))*.

The impact of school facilities is much more ambiguous. Some researchers have concluded that smaller classes, newer school buildings, and the availability of laboratories and libraries improve

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pupil achievement. Other investigators have discovered no measurable effects of these items on cognitive skills. Thus, while we can be reasonably sure that teacher quality is important, we cannot completely rule out the possibility that other school attributes also have a significant influence on pupil achievement.

Schools Do Not Buy High-Quality Teachers

School spending decisions do not follow the latest educational research. Various studies have shown that the teacher characteristics with the greatest effect on pupil achievement are not those that are actually purchased.[2] While certain marks of a good teacher are recognized in salary schedules, many others are not. And even those that are given recognition are treated imperfectly.

One group of investigators argues that additional experience increases teacher productivity only for the first six or seven years and has little additional impact on achievement thereafter.[3] But most school systems reward experience well in excess of this amount. Graduate degrees usually result in a uniform pay increase for the teacher, even though the value of the degree to the teacher's students may depend on where and how recently it was obtained.

Under such circumstances it is only to be expected that money *per se* has a small influence on the results of schooling. Yet this does not mean that additional spending, if properly directed, would not bring about some improvement in pupil achievement. The money currently spent on schools could also produce better results if concentrated on the school inputs which appear to have the greatest effect.

Family Background, Friends and Classmates Affect Achievement

Equal schools cannot compensate for unequal conditions outside the school and will not produce graduates of equal academic achievement, which raises the possibility of improving student achievement by working outside the schools.

Some aspects of a student's background can be influenced in the short run by government action. For instance, family stability could be promoted by welfare reform; nutrition could be improved by free breakfast and lunch programs; and additional health care could be provided. Other background variables, such as parents' education, could be affected only in the long run.

Equal Resources Would Help Reduce the Gap

The qualitative effect of equalization is not disputed, but its quantitative impact is quite uncertain. For instance, different writers estimate that anywhere from 10-to-25 percent of the difference in average white and black achievement test scores could be closed by eliminating differences in the quality of schools attended by the two races (not merely differences in school expenditures). If the current discrimination were reversed and more resources were devoted to the education of black children than white, the achievement gap could be closed still further. The same conclusion can also be drawn for students from high- and low-income strata.

Since fellow students have a major effect on a pupil's education, making student bodies more diverse would also help reduce the differences in academic achievement. Mixing could involve integration of schools with respect both to race and family income and to the elimination of compulsory ability grouping within schools. It has been estimated that ending racial and socio-economic segregation among schools would reduce the test score gap by an additional 10-to-30 percent.

Uniform Increase Not The Answer

Increased total spending for public education will not close the achievement gap if it is spread evenly over all students. A corollary is that equalization and integration will improve the situation of some students, primarily the black and the poor, while whites and upper-income students will end up less well off. Some writers have attempted to show that pupils at low levels of achievement will be assisted by such changes without adversely affecting the performance of high achievers, but the picture is not so rosy—at least in the short run. At best it appears that equalization, compensatory spending and integration can be used to redistribute the benefits of schooling—to reduce the scatter around the mean—without reducing the average level of student achievement.

Because of this problem many writers have proposed combining equalization of school spending with an increase in the average level of funding. Upper-income families would end up with a substantial increase in their tax bills, but the education of their children would continue to be financed at about the same level as before. Children in low-income communities would benefit both from the equalization and the leveling-up. This alternative, however, is likely to be very expensive. The President's Commission on School Finance computed that some $7 billion would be required to increase the level of per-pupil spending in each school district in the country to near the maximum spending level for its own State. Thus, raising overall achievement and reducing the achievement gap in the short run are separate goals, and spending more money for one reduces the amount of funds available to the other.

Major Educational Improvement Requires Changes In Patterns

Merely spending more money in the same old

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Table J-1

KIESLING STUDY

Expenditure Coefficients and Tests of Significance, by Grade Level

All School Districts

Occupation Group	Grades 4,5,6	Grades 7,8	Grades 10,11	Grades 4-8
Professional Persons	1.43	-0.09	0.50	3.05
	(0.67)	(0.04)	(0.35)	(1.23)
Proprietors, Managers, Officials	5.39	3.30	0.29	5.06
	(2.20)**	(1.48)	(0.23)	(2.09)**
Clerks and Kindred Workers	3.91	1.29	1.79	2.88
	(1.69)*	(0.61)	(1.37)	(1.17)
Skilled and Semi-skilled Workers	5.31	-3.13		1.32
	(2.23)**	(1.33)	N.A.	(0.59)
Unskilled Workers	2.99	-4.00	-1.71	0.70
	(1.19)	(1.48)	(1.05)	(0.26)

*Significant at 10% level

**Significant at 5% level

Notes: Coefficient shown is for natural logarithm of dollars of expenditure per pupil; other independent variables are constant, intelligence score, and size of district in ADA. Figures in parenthese represent t values.

Source: Kiesling, Tables 1 and 2.

Table J-2

KIESLING STUDY

Expenditure Coefficients and Tests of Significance, by Size of School District, Grades 4-8

Occupation Group	Large School Districts	Small School Districts
Professional Persons	0.01	0.086
	(1.63)	(1.38)
Proprietors, Managers, and Officials	0.015	0.051
	(2.44)**	(0.84)
Clerks and Kindred Workers	0.014	-0.001
	(2.32)**	(0.01)
Skilled and Semi-skilled Workers	0.013	0.078
	(2.07)**	(1.33)
Unskilled Workers	0.005	0.116
	(0.61)	(1.76)*

*Significant at 10% level

**Significant at 5% level

Notes: Coefficient shown is for the effect on the score of dollars of expenditures per pupil; other independent variables are intelligence score, size of district, and grade level dummies; large school districts are those with over 2,000 pupils in ADA. Figures in parentheses represent t values.

Source: Kiesling, Table 2.

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Table J-3

BENSON STUDY

Significance of Variables in Stepwise Regression on Median Fifth Grade Reading Achievement

Variable	All Districts Order of Entry	All Districts F-test	Low Achievement Districts Order of Entry	Low Achievement Districts F-test	Districts With Fewer Than 2,000 Pupils Order of Entry	Districts With Fewer Than 2,000 Pupils F-test	Districts With 2,000-4,500 Pupils Order of Entry	Districts With 2,000-4,500 Pupils F-test	Districts With More Than 4,500 Pupils Order of Entry	Districts With More Than 4,500 Pupils F-test
Median Education of Adults in District	1	158.3**	1	7.1*	t		t		t	
Median Household Income	2	14.8**	2	3.1	1	58.3**	1	35.6	1	63.1**
Percent of Teachers in Lower salary Quartile	3	0.9	3	0.6*	2	7.2**	9	1.0	9	0.1
Percent of Teachers in Upper Salary Quartile	4	1.3	4	6.8*	4	1.6**	3	3.1**	7	2.1**
Pupils per Teacher	5	1.3	5	1.4	10	0.0	7	1.0	3	1.2
Mean Administrator's Salary	6	0.5	6	0.0	7	0.6	2	2.3**	10	0.1
Expenditure Per Pupil	7	6.7*	7	3.6	5	3.1**	6	0.7	4	1.4
Mean Teacher's Salary	t		t		3	3.7**	10	0.2	6	1.5
Size of District	t		t		6	2.6	5	2.0**	8	0.5
Teachers Per Administrator	t		t		8	0.2	4	2.7	2	4.7**
Total District Income Per Pupil	t		t		9	0.0	8	1.6	5	1.5

*Significant at 5% level
**Significant at 1% level
t Not sufficiently significant for inclusion in the regression analysis.
Source: Benson, Tables 9, 10, and 11.

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ways will not be enough. Efforts should be concentrated on the school inputs that appear to have the greatest effect, especially on improving the quality of teachers. Directing resources in this fashion may make educational improvements possible at costs substantially less than those cited above. The RAND study also reached this conclusion.

Summaries of School Effectiveness Studies

In tables accompanying the following summaries the t-statistic and F-statistic measure statistical significance. Values of t greater than 2 indicate that a factor is statistically significant—that is, that the calculated value for the factor is such that the true value will be different from zero in 19 out of 20 cases. The F-test is similar to the t-test but is used to test the statistical significance of a combination of factors.

Kiesling Study

An early attempt to assess the effect of schools was carried out under the auspices of the New York State Department of Education during the 1957-58 through 1959-60 academic years. These data were analyzed in a 1967 article by Herbert J. Kiesling.[4]

Pupils participating in this Quality Measurement Program were given an Iowa achievement test appropriate to their grade level. The sample was stratified by grade, socio-economic class (determined by the occupation of the pupil's father) and size of district. For each grade level and socio-economic group, the average school district achievement was regressed on average pupil intelligence (measured by an I.Q. test), school district size and annual per-pupil expenditure. The regression coefficients for the expenditure variable are shown in Table J-1. Table J-2 shows the coefficients when the sample is divided into large and small districts.

Kiesling finds that the expenditure-performance relationship is the strongest for students in lower grades, middle socio-economic groups and large school districts. For districts with more than 2,000 pupils in average daily attendance, the cost of raising average test scores of middle-class children by one month averaged around $70 per pupil. (This is the inverse of the regression co-efficients in column 1 of Table J-2.)

Benson Study

California instituted a statewide testing program in its elementary and secondary schools in 1962. The data from the California Test of Reading Comprehension for fifth graders in 1962-63 were analyzed by Charles S. Benson for a committee of the California Senate.[5]

For each of the 249 districts administering the test, information was also collected from published sources on school inputs and socio-economic characteristics of the residents. These explanatory variables were then used in a series of stepwise regressions on the median test score for various groupings of districts. The significance of the improvement in explanatory power due to the inclusion of additional variables is shown in Table J-3.

In each regression, one or more of the school variables was found to be significant, including either expenditure per pupil or percent of teachers in upper salary quartile or both. Benson concludes, "The association between the achievement of pupils and the instruction offered by those teachers who are qualified by experience and training to be paid in the upper salary quartile is positive, and the association stands independently of the known connection between the home environment of pupils and their achievement."[6] Benson does not report the regression coefficients. Therefore, it is not possible to compute the improvement in teacher quality meaningfully associated with a specified improvement in student achievement.

Ribich Study

Another source of information on pupil achievement, school characteristics and family background is the continuing set of Project Talent surveys, conducted for the Office of Education. These data have been used by Thomas I. Ribich to assess the costs and benefits of compensatory education programs.[7]

Ribich controlled for social backgrounds by considering only male students who ranked nationally in the bottom 20 percent on Project Talent's index of socio-economic status. To insure comparability, further, he also excluded students from the South and from large cities. He then compared the achievement test performance of these students in school districts of differing expenditure levels. The data and calculations for this exercise are shown in Table J-4.

Ribich's major conclusion is that an increase of $100 in per pupil expenditures as 1960 spending levels increases student achievement by 0.19 yearly equivalents or about the same amount as six to eight weeks of school. As could be expected, increased expenditures have their greatest effect at the lowest spending levels.

Coleman Report

The *Equality of Educational Opportunity* study was prepared through the Office of Education in response to a congressional mandate contained in the Civil Rights Act of 1964.[8] It was based on a stratified national sample survey of over 600,000 students, their schools, their communities and their homes. Student verbal achievement was measured by a uniform test

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Table J-4

RIBICH STUDY

Estimated Gains in Test Scores Resulting From a $100 Change in Expenditures

School District Expenditure Per Pupil	Number of Low Status Boys	Average Test Score	Average Increase in Test Score by Moving to Next Expenditure Category	Difference in Mean Expenditure Between Categories	Average Change in Test Scores Associated with $100 Change in Expenditures
Less than $200	99	9.82	0.43	$145	0.30
$200-$300	473	10.25	0.07	83	0.08
$300-$400	1512	10.32	0.20	92	0.22
$400-$500	—	10.52	—	—	—
All Districts	**2084**	—	—	—	**0.19**

Source: Ribich, Tables 8 and 9.

administered by the Educational Testing Service in the fall of 1965. Other data were obtained through questionnaires completed by students, principals and school superintendents.

Although this survey is the most comprehensive available on school resources and student achievement, the data and methodology are not free from criticism. First, there was a substantial number of districts that did not participate in the survey, and these were disproportionately large-city districts. Second, the many nonresponses were not randomly distributed across the sample. Third, some of the data, such as per-pupil expenditures, pertained to an entire school district, while others were collected on

Table J-5

COLEMAN REPORT

Listing of Variables

1) Student Attitude Variables (A)
- Interest in School
- Self-Concept
- Sense of Control of Environment

2) Student Background Variables (B)
- Objective Background Variables (Bo)
  - Urbanism of Background
  - Parents' Education
  - Structural Integrity of Home
  - Smallness of Family
  - Items in Home
  - Reading Material in Home
- Subjective Background Variables
  - Parents' Interest in Children
  - Parents' Educational Desires

3) School Characteristics (S)
- Expenditures (Se)
  - Per Pupil Expenditure on Staff
- Other
  - Volumes Per Student in Library
  - Science Laboratory Facilities
  - Extracurricular Activities
  - Presence of Accelerated Curriculum
  - Comprehensiveness of Curriculum
  - Use of Tracking
  - Movement Between Tracks
  - Size
  - Guidance Counsellors
  - School Location

4) Student Body Characteristics (School Environment) (E)
- Proportion Whose Families Own Encyclopedia
- Number of Student Transfers
- Attendance
- Proportion Planning to Attend College
- Average Hours of Homework

5) Teachers' Characteristics (T)
- Average Educational Level of Teachers' Families
- Average Years of Experience in Teaching
- Localism of Teachers
- Average Educational Level of Teachers
- Average Score on Vocabulary Test
- Teachers' Preference for Teaching Middle-Class Students
- Proportion of Teachers Who are White

Source: Coleman, pages 298-317.

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a school-by-school basis. This procedure ignores the admitted intra-district and intra-school disparities in educational resources devoted to individual pupils. Fourth, the range of variables measuring available school programs was very limited. *(Table J-5.)*

Fifth, the survey collected information solely on current school inputs, ignoring the effect of past input levels on current achievement.[9] It should be noted, however, that these criticisms are relevant to most, if not all, studies of school effectiveness and indicate the hazards of the enterprise.

The analytical procedure in the Coleman report rests on a large number of linear regression equations designed to explain the individual verbal achievement scores. The explanatory variables are combined into several groups—student attitudes, student background, school characteristics, student body characteristics and teacher characteristics. *(See Table J-5.)* The analysis is based on a comparison of the increments in the percentage of variance explained resulting from the addition of another group of independent variables.

Since the groups of independent variables are highly correlated with one another, only a part of the explained variance can be assigned uniquely to one group or another. Using the Coleman report technique the portion of the variance allocated to each group depends on the order in which it is entered. Coleman uniformly enters background variables first, thereby minimizing the variance explained by schools. More important, while the increase in variance explained can be used to test whether some relation exists between school inputs and outputs, it cannot tell us the strength of that relationship—how large an increase in a given input is necessary to secure a unit increase in output. The converse is also true: a given functional relationship between school factors and student achievement is consistent with a wide variety of values for the Coleman test statistic.[10]

Despite these problems with the data and the statistical techniques, the Coleman report still reveals that schools do make a difference to student achievement. Even when student background factors are entered into the regression first, the teacher and school facility variables explain another 11 percent of verbal achievement scores for black 12th graders. This compares favorably with the 13 percent explained by the objective background factors alone. *(See Table J-6.)* A striking feature of the Coleman statistics is that these school factors have a much greater effect on blacks than on whites, while for whites the student's background is relatively more important. This suggests that improving the quality of schools is a particularly effective method of improving the relative educational standing of black children.[11]

Table J-6
COLEMAN REPORT
Percentage of Variance in Verbal Achievement Explained, Grade 12

Explanatory Variables	Negro, Total	White, Total	Source (Table)
A	15.89	27.68	3.26.1
B	15.14	23.03	3.26.1
Bo	13.48	14.71	3.221.3
Percentage of Variance in Verbal Achievement Explained Controlling for Objective Background Variables, Grade 12			
T	9.53	1.82	3.25.3
T + S	10.70	3.42	3.25.3
T + S + E	13.78	4.18	3.25.3
S	6.96	2.53	3.24.2
S + E	12.82	3.69	3.23.2
So	2.62	.80	3.24.1

Note: See listing of variables in Table J-5 for key to abbreviations.
Source: Coleman, tables as listed.

Bowles study

Professor Samuel Bowles of Harvard University has subjected a portion of the Coleman report data to re-analysis, taking care to avoid the statistical pitfalls into which Coleman fell.[12] All the criticisms of the data themselves, of course, apply to this study as well.

In his educational production function, Bowles attempts to avoid simultaneous equation bias by including only variables thought to be exogenous. Since there are no explicit data available on students' educational endowments at the beginning of school, this variable is omitted. The dependent variable is Coleman's verbal achievement measure. The equation is estimated for a sample of 12th grade Negro males, and the resulting coefficient estimates are shown in Table J-7. School variables found to be significant are teachers' verbal ability, science lab facilities (seen as a proxy for school facilities in general), time teachers spend in guidance, and the number of days the school is in session.

Bowles also provides an estimate of the bias due to omitting the variable representing students' initial educational endowments. He estimates a similar equation for grade one, and assumes that a student scoring one standard deviation above the mean at grade one will score one-half standard deviation above the man at grade 12. School variables turn out not to be significant in the first grade, when the schools have had little chance to have an effect. Therefore, the bias in the 12th grade estimates ap-

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plies only to the variables representing the home environment. Correcting for this bias reduces the apparent influence of social class on learning. The coefficient on reading material in the home falls from 1.66 to 1.03, and the coefficient of parents' education drops from 2.45 to 0.86.[13]

Translating these estimates into a relation between educational inputs and outputs, it appears that a uniform improvement of 10 percent in all school inputs would raise pupil achievement by 5.7 percent. In other terms, students in schools with inputs one standard deviation below the mean differ from students in schools with inputs one standard deviation above the mean by two-thirds of a standard deviation on the achievement scale.[14]

Michelson Study

Still another re-analysis of the Coleman report data has been performed by Stephen Michelson of the Harvard School of Education.[15] Michelson studies data from the sixth grade questionnaire, restricting himself to students in a single large eastern city who have attended the same school throughout their career. Since the data were collected near the beginning of the school year, the attributes of fourth and fifth grade teachers are used as explanatory variables.

Michelson emphasizes particularly that improving cognitive skills—memory for facts, rules, principles and events—may not be the primary objective of schools, nor are cognitive skills necessarily the most useful outcomes. Other possible goals of schooling are the socialization of the child, the smoothing of the transition from the family to independence, and the maintenance of a common cultural core. In addition to their status as independent goals, these non-cognitive attributes may contribute to making cognitive gains.

Sometimes, a policy that helps reach one goal will make it more difficult to achieve another. For instance, tracking may increase the acquisition of cognitive skills, yet be unacceptable because of its effect on student attitudes.

The author develops a three-equation simultaneous model which considers the development of student attitudes and aspirations, as well as verbal achievement. The model is estimated separately for whites and blacks. The equations for verbal achievement are reported in Table J-8.

The attitude and aspiration equations had significant coefficients for some school variables. With the exception of library volumes per pupil, the school variables all represent teacher characteristics. The estimates indicate that some gains in achievement can be attained by redistributing teacher resources. If teachers were distributed evenly by test score, 9 percent of the achievement gap between black and white children would be closed. Putting the teachers with the highest test scores with the blacks would reduce the gap by 28 percent.

The effect of redistributing teachers can also be measured in terms of the number of whites with test scores above the black mean. At present, about 78.5 percent of whites score above the average black. With equal teachers, about 76.3 percent of whites would still be above the black mean.

Michelson observes that choosing the appropriate measure of educational significance is a social problem, not a scientific one. In this case it depends on whether blacks care more about their mean score relative to whites, or about the number of whites who score better.

Table J-7
BOWLES STUDY
Educational Production Function (Reduced Form), Black Twelfth Grade Students

Variable	Coefficient	T-statistic	Mean
Verbal Achievement Scale	(dependent	variable)	49.22
Constant	-14.22	-0.75	1.00
Reading Material in Home	1.66	2.22**	-0.11
Number of Siblings	1.76	4.13***	-0.33
Family Stability	0.83	1.72*	-0.16
Teacher's Verbal Ability	1.04	5.56***	21.22
Science Lab Facilities	0.04	1.88*	89.41
Average Time in Guidance	1.48	2.37***	1.85
Days in Session	0.20	1.92*	179.90

*Significant at 10% level
**Significant at 5% level
***Significant at 1% level
Note: The coefficient seeks to show the multiple or fractional increase in verbal achievement scale associated with a unit increase, however defined, in one of the independent variables.
Source: Bowles, Tables 6 and A-2.

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Table J-8

MICHELSON STUDY

Structural Equations Explaining Students' Verbal Achievement

(Two-Stage Least Squares Estimates)

Independent Variable	Coefficient Whites	Blacks
Student's Attitude	2.391	3.33
	(1.62)	
Grade Aspiration	1.622	.048
	(1.63)	
Background		
Sex	- 0.467	-0.481
	(0.42)	
Age 12 or Over	- 5.026	-2.160
	(2.16)	
Family Size	- 0.080	-0.395
	(0.29)	
Possessions	0.630	0.947
	(1.41)	
Kindergarten	0.969	0.253
	(0.77)	
Father's Education	0.066	-0.084
	(0.33)	
School		
Teacher Test Score	0.246	0.254
	(0.96)	
Teacher's Undergraduate	6.457	-1.463
Institution	(2.27)	
Teacher's Experience	0.637	-0.179
	(5.10)	
Teacher Turnover	- 0.023	-0.016
	(0.19)	
Volumes Per Student	0.380	0.076
	(1.08)	

Note: Attitude and aspiration are endogenous to the model; other exogenous variables to the model are identification of mother, identification of father, and teacher's preference for another school; t-statistics in parentheses.
Source: Michelson, Tables 5 and 6.

Although no statistical testing was performed on the coefficients in the simultaneous equation models, it appears that they differ significantly between whites and blacks. (Michelson does show significant differences in a single-equation model using the Chow test.) Some variables even have different signs. While there are alternative explanations for the phenomenon, Michelson favors the idea that blacks and whites respond to school variables differently. He also generalizes this notion to students of differing socio-economic background. A given teacher characteristic may increase the verbal score of a white child but not affect a black student's achievement.

This concept of resource specificity has two implications that are relevant in the present context. First, if schools affect different children differently, educational models which ignore this will find it difficult to identify significant school effects. The underlying assumption for an analysis of the sources of variance in student achievement is that the groups for which comparisons are drawn all belong to the same population. The analysis of variance technique produces meaningless results where this assumption does not hold.

Second, if all students do not react to teachers in the same way, this fact should be taken into account in the training of teachers and their allocation to different schools and classes. Although we have few clues as to what this would mean in practice, it suggests that making more effective use of existing educational resources could lead to increases in educational outputs.

Urban Coalition Study

As part of a court case attempting to overturn Michigan's school finance system, the National Urban Coalition supported an academic study of schools and inequality. The research was carried out by a group of economists and educators from Stanford University of California.[16]

The investigators examined the relationship between school service quality and academic achievement for the sample of Michigan students contained in the Coleman report survey. In order to control for student background, students were grouped into deciles according to their position on an index of socio-economic status (one is low, ten is high). Three different measures of achievement were used—(1) a reading test, (2) a mathematics test, and (3) a test of verbal facility. For each socio-economic decile a rank-order coefficient was calculated between an individual student's scores on selected measures of school service quality and the three measures of school output.

The results of the exercise are shown in Table J-9. The table lists the socio-economic deciles for which each of the school service components was found to be associated statistically with at least one output measure at the 5 percent level of significance. The authors recognize that one variable in their analysis may be acting as a proxy for another. Nevertheless, because of the stratification by socio-economic level, it is likely that the underlying factor accounting for differences in student achievement is some school service resource.

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Table J-9

URBAN COALITION STUDY
Summary of Michigan School Service Component Effectiveness

School Service Component	Output Measure	Direction of relationship Between Output Measure and School Service Component	Socio-Economic Deciles for Which This Relationship is Statistically Significant
School Site Size	Math Score	+	5,8,10
	Reading Score		None
	Verbal Score		5,6
Building Age	Math Score	—	4,6,7,8,9,10
	Reading Score		1,2,4,6,7,9,10
	Verbal Score		1,2,4,5,6,7,8,9,10
Percent of Makeshift Classrooms	Math Score	—	7,9,10
	Reading Score		None
	Verbal Score		6,9
Library Volumes Per Student	Math Score	+	1,6,7,8,9,10
	Reading Score		4,6,8,9
	Verbal Score		6,7,8,9
Size of School (Enrollment)	Math Score	—	1,2,6,8,10
	Reading Score		1,6,10
	Verbal Score		1,2,6,8,10
Percent of Students Transferring	Math Score	—	4,6,7,8,9
	Reading Score		1,2,4,5,6,7,8,9
	Verbal Score		1,2,4,7,8
Classrooms Per Student	Math Score	+	2,6,8,9,10
	Reading Score		2,6,8,9
	Verbal Score		2,6,8,9,10
Teacher Experience	Math Score	+	3,4
	Reading Score		None
	Verbal Score		None
Teacher Attitude*	Math Score	+	1,2,5,6,7,8,9,10
	Reading Score		1,2,5,6,7,8,9
	Verbal Score		1,2,5,6,7,8,9,10
Teachers' Verbal Ability	Math Score	+	1,3,4,5,6,7,8,9
	Reading Score		5,6,8,9
	Verbal Score		1,3,5,6,7,8

*Response to question, "Do you like the school you are in?"
Source: Guthrie *et al.*, Table 4.2.

Jencks Study

Christopher Jencks has analyzed the Coleman report data in a manner similar to the Guthrie group but has reached seemingly divergent results.[17] Some of this difference is due to an alternative formulation of the dependent variable, but much of it is a matter of emphasis. Guthrie and his colleagues make the most of the statistical significance of the relationship between certain educational inputs and outputs. Jencks dwells on the apparent small magnitude of coefficients and the difficulties in interpreting the mathematical results.

Jencks bases his analysis on the sample of urban non-Southern sixth graders included in the Equality of Educational Opportunity survey. Like Guthrie and colleagues, he looked at the relationship between school service variables and pupil achievement (primarily the verbal test), holding student backgrounds constant. Jencks used mean school achievement—not individual achievement—as his dependent variable. Also, he controlled for background not

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by dividing the sample into socio-economic deciles, but by including various background characteristics in a multiple regression. Each regression contained as independent variables several background variables plus one school variable. It is the coefficient of the school variable and its significance that Jencks reports. *(See Table J-10.)* This approach, however, will lead to biased and inconsistent parameter estimates if, as is likely, more than one school variable enters the "true" relation between inputs and outputs.

In certain cases Jencks reports no significant relation between a school service variable and student achievement, in direct opposition to the findings of

Table J-10

JENCKS STUDY

Effect of Changes in Selected School Inputs on Student Verbal Achievement

School Service Variable		Effect of Unit Increase on Student Achievement (Months)	
Name	**Unit**	**95 Percent Confidence**	**Mean**
Salaries Per Pupil	$100 Per Pupil	- 0.10 to +1.00	+0.45
Nursery School Attendance	Class of Nursery School Graudates	- 0.75 to +6.00	+2.62
Kindergarten Attendance	Class of Kindergarten Graudates	- 0.75 to +1.50	+0.25
School Year	One Day Per Year	- 0.17 to +0.03	- 0.07
Half Sessions	Class on Half Session	No Relation	0
Pupils Per Room	One Pupil Per Room	- 0.10 to +0.02	- 0.04
Size of Site	One Acre Per School	No Relation	0
Age of School Building	One Year Per Building	No Relation	0
Free Lunches	Class Receiving Free Lunches	No Relation	0
Library	Presence of Library	- 0.50 to +0.17	- 0.16
Library Books	100 Volumes Per Pupil	- 0.03 to +0.10	+0.03
Textbooks	"Enough" Textbooks	- 0.75 to +0.25	- 0.25
Age of Textbooks	One Year Per Book	+0.02 to +0.13	+0.08
Frequency of I. Q. Tests	One Test Administration Per Pupil	+0.25 to +1.00	+0.63
Homework	One Hour Per Night	- 0.25 to +1.25	+0.50
Tracking	All Students Grouped by Ability in Different Subjects	+1.00 to +2.00	+1.50
Class Size	One Student Per Class	- 0.20 to - 0.03	- 0.12
Non-Teaching	Number Per Student	No Relation	0
Teacher Education	All Teachers With Master's Degree	- 0.50 to +1.50	+0.50
Teacher Verbal Facility	One Standard Deviation On Vocabulary Test Per Teacher	0.00 to +0.50	+0.25
Teacher Preparation Time	One Hour Per Teacher Per Day	0.00 to +1.00	+0.50

Note: Figures converted to monthly basis assuming that one month equals four weeks or thirty days.
Source: Jencks, *passim*.

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the Guthrie group. This is true of the variables describing the physical condition of the school building. Since Guthrie used individual achievement as his dependent variable and took the number of children as the available degrees of freedom, he would naturally tend to find more significant independent variables than Jencks, who used the school as the unit. Jencks argues that since the data on schools are not independent for each individual, the Guthrie procedure "yields artificially small confidence intervals and makes many variables look 'statistically significant' when they are not."[18]

In other instances Jencks finds statistically significant relations that have an unexpected algebraic sign. For instance, it appears that increasing the length of the school year, adding a library to a school, having "enough" textbooks or using newer textbooks all decrease student achievement. (None of these variables was studied by Guthrie.) Jencks notes that these correlations most likely reflect the assignment of educational resources to areas of greatest need, not any true causal relation.

Most of Jencks' results agree with those in *Schools and Inequality*. Both studies found that adding library volumes, increasing the number of classrooms per student and having teachers with greater verbal ability all have beneficial effects on student achievement. Other significant policies found by Jencks include sending students to nursery school and kindergarten, assigning more homework, grouping pupils by ability, having more teachers with Master's degrees and giving teachers more preparation time.

Even a significant correlation coefficient with the expected sign does not necessarily mean that the school characteristic affects student achievement. In some cases student achievement may influence the school characteristic rather than the other way around. For instance, Jencks concludes that teacher experience is positively correlated with student achievement because more experienced teachers have the bargaining power to transfer to schools with better students.

Achievement differences, Jencks notes, may also be caused by "unmeasured school or pupil characteristics that happen to be correlated with the school characteristic under study."[19] Variables such as the frequency of intelligence testing or the presence of a dictionary in the home tend to correlate with school characteristics but the variables may have no direct effect in themselves on pupil achievement. Thus the coefficient on intelligence testing does not mean that verbal scores can be improved by 0.63 months merely by administering another test. Students will perform better, however, if the additional test administration is combined with a proportionate increase in the other unknown school resources that give the coefficient its significance. For example, more student experience with tests should lessen the chance of student emotional strain over having to take an additional test.

Given the significance of certain of these production relationships, Jencks considers them to be of little magnitude. While it is fruitless to argue whether a given number is large or small, it can be noted that Jencks' estimate of the effectiveness of educational spending is somewhat more modest than others reported in these pages. Using 1965-66 data, Jencks finds that raising achievement test scores by one month would cost some $220 per pupil in salaries. For the late 1950s Kiesling estimated a total educational cost of $70 per pupil to raise achievement test scores by one month and Ribich calculated a per-pupil cost of about $50 for a similar achievement gain. Jencks' most significant effects, however, come from teacher education and preparation, which may have only a weak relation to salaries per pupil.

O'Neill, Gray, and Horowitz Study

Three economists at the Center for Naval Analyses examined the effects of equalizing expenditures for individual schools within a school district for the District of Columbia School Administration.[20] They conclude that "very little diminution in quality of schooling variation" would flow from equalizing expenditures since "dollar expenditures on teachers do not necessarily measure teacher quality."

The authors' analytical innovation is to break with the assumption that additional years of teacher experience always make the same contribution to pupil achievement. Instead, they assume that productivity rises linearly with experience to a certain cutoff point, and ceases to grow thereafter.

This experience variable is included in a linear regression designed to explain the median sixth grade reading achievement test score for each District of Columbia school. Other independent variables were percent of needy lunch children in total school enrollment eligible for free lunches, median second grade reading achievement test score, amount of special expenditures per pupil, pupil-teacher ratio, an index of degrees held by teachers and the number of teachers new to the school.

No coefficients are reported, but the socio-economic variables are said to be "by far the most important in accounting for the variation in test scores." Of the school variables, only the experience index is significant. The authors find the variable to have the greatest explanatory power when the cutoff point on the learning curve is put at seven years of experience. The coefficient of the experience variable, itself unreported, has a t-statistic of 2.19 with the seven-year cut-off. However, cut-offs of six to ten years all result in t-statistics of 1.96 or above.

Analyzing the variance in total teacher expendi-

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tures per pupil in the District of Columbia, the authors find that only 28 percent is due to variations in average teacher salary. Of this, only about 20 percent is due to variation in the percentage of teachers with fewer than six years of experience.

The remainder of the variance in total teacher expenditures per pupil is due to variations in the number of teachers per pupil. The regression results indicate that, within the range of class sizes found in the District of Columbia schools (roughly from 22 to 31 students per class), the pupil-teacher ratio does not significantly affect the quality of instruction.

The authors conclude that equalization of specific school inputs—particularly experienced teachers and class size—would achieve more equalization of quality than simple equalized distribution of school funds.

Perl Study

The Office of Education Project Talent data drawn upon by Ribich have also been analyzed by Lewis J Perl of the School of Industrial and Labor Relations at Cornell University.[21] Perl examined the male high school seniors who responded to one of the Project Talent follow-up questionnaires, using every fifth observation in the total sample. The output measures used are the first two principal components of the battery of aptitude and achievement tests expressed as percentiles. Perl notes that these two scores explain about 70 percent of the variance in the 22 ability components from which they were derived. The grouping of the ability components in the original tests produced two measures, one which Perl considers an ability measure reflecting general information and verbal ability and a second measure related to the ability to reason abstractly.

Estimated family income and father's education were used to measure the effect of family background on student achievement. Family income also was used to measure the influence of the home background of other students in each school.

The effect of school inputs was measured in two different ways. In one pair of regression equations the only school input variable used was current expenditure per pupil. In the other pair of regressions, each of the expenditure components was measured separately. Perl employed three measures of the quantity of teacher time per student, seven measures of the quantity of teacher time per student, seven measures of teacher quality, and two measures of school facilities. The regression results are reproduced in Table J-11.

In the expenditure model, Perl finds that each $100 increase in current expenditures per pupil increases achievement measure #1 by 0.9 (.891) percentiles and achievement measure #2 by 0.8 (.755) percentiles. In the physical model, achievement as measured by the first component is significantly improved by reducing class size in nonscience courses, increasing the starting salary of teachers, increasing the time teachers spend on their subject of specialization, and increasing the number of books in the school library. Achievement by measure #2 is significantly improved by increasing the percentage of teachers with M.A. or Ph.D. degrees, reducing the percentage of teachers who are male, increasing the percentage of time the average teacher spends in his area of specialization, increasing the number of school days and increasing the size of the school library. Perl comments on these results as follows:

> In some respects the differences between the results of the [Coleman Report] and this study are more apparent than real. In the production functions described here, the most consistently significant components of school expenditures were those related to teacher quality, and this is also the case in the *EEO Report*. . . . Our model suggests that while some of the determinants of average teacher salary (starting pay, percent with M.A. degrees, percent specialized) *are* related to student performance, other components (experience, certification, and percent male) are not related to student performance or even inversely related to these output measures. This would explain the failure to observe a significant relation between average salary and performance, while also suggesting that increasing teacher salaries might well be capable of increasing student performance.

According to Perl's results, increasing the percent of teachers with M.A. degrees is the most cost-effective way of increasing pupil achievement. Spending $650 more per pupil in order to increase the percentage of teachers with master's degrees is estimated to increase achievement levels by 10 to 15 percentiles. Spending the same amount in proportion to existing expenditures (merely increasing the average expenditure per pupil) is estimated to increase achievement by less than one percentile.

FOOTNOTES

[1]Harvey A. Averch, *et al., How Effective is Schooling?* (Washington: Pesident's Commission on School Finance, 1972). The Rand researchers summarized 18 educational input-output studies. Of these, two gave no tests of significance for individual inputs *(Mollenkopf and Coleman)*. Four of the studies summarized here and in the Rand report coincide *(Benson, Coleman, Bowles and Michelson)*.

[2]Eric Hanushek, "Teacher Characteristics and Gains in

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Table J-11

PERL STUDY

Estimated Regression Coefficients Relating Test Scores to Selected Measures of Educational Input

Variables	Mean Value of the Variable	Ability Regression Coefficient	Measure Standard Error	Significant Level[a]	Ability Regression Coefficient	Measure Standard Error	Significant Level[a]
Constant	1.0	-55.04	18.46	.002	-63.43	18.93	.000+
Family Characteristics							
Income (in thousands)	9.0	.497	.201	.013	.158	.206	.441
Father's Education (years)	11.2	1.680	.163	.000	1.460	.167	.000+
Characteristics of other students							
Mean Income (in thousands)	9.0	3.916	.470	.000+	2.411	.482	.000+
Standard Deviation of Income (in thousands)	2.6	-.670	.905	.459	-.657	.928	.477
High School Characteristics							
Average Class Size—Science	26.5	.043	.185	.818	.398	.189	.036
Average Class Size—Non Science	28.2	-.318	.179	.077	-.252	.184	.170
Starting Salary For Teachers (in thousands)	4.1	2.949	.859	.000+	.399	.881	.652
Percent of Teachers With M.A.	44.3	.026	.022	.242	.038	.022	.085
Percent of Teachers With Ph.D.	.6	.097	.140	.490	.267	.143	.063
Percent of Teachers Who are Male	54.6	-.014	.035	.689	-.081	.036	.024
Percent of Teachers Who are Certified	93.9	.033	.028	.238	-.020	.029	.496
Percent of Teacher's Time Spent in Area of Specialization	94.3	.109	.050	.031	.145	.052	.005
Average Teacher Experience (yrs.)	12.0	.009	.165	.960	-.188	.169	.267
Pays in School Year	181.5	.145	.101	.153	.338	.104	.000+
Age of School Building	22.5	.023	.032	.478	.023	.033	.496
Books in Library (in thousands)	2.5	1.720	.851	.043	2.122	.873	.015
Enrollment (in hundreds)	12.0	.050	.175	.779	-.085	.180	.638
Enrollment^2 (in hundreds)	250.6	.001	.004	.881	.005	.180	.638
Expenditure Per Pupil (in hundreds)	4.0	.891	.308	.004	.755	.315	.017
Outputs							
Ability Measure 1 (in percentiles)	52.0						
Ability Measure 2 (in percentiles)	51.3						
R^2		.265			.095		
F		35.82			13.85		
N		3265			3265		

[a]The chances of finding a regression coefficient for the particular factor as against the alternative, or null hypothesis, that the regression coefficient is zero—no association between the ability measure and the factor. Thus, the smaller the value in the significant level column, the greater the probability of a significant regression coefficient, i.e., a regression coefficient that is not likely to be due to chance.

Source: Perl, *op. cit.*, Table 1.

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Table J-12

Selected Data and Comparisons For A Decade of Public School Finance

	1960-61	1970-71	Percent Increase
Enrollment (thousands)	37,244	45,881	23.2
Instructional Staff (thousands)	1,526	2,269	48.7
Classroom Teachers	1,409	2,040	44.8
Administrators, Librarians, Counselors, etc.	117	229	95.7
Average Annual Instructional Salary	$ 5,389	$ 9,689	79.8
Average Gross Weekly Earnings In Private Nonagricultural Industries (1961 and 1971)	$ 82.60	$126.54	53.2
Revenue Receipts (millions)	$14,779	$41,937	183.8
Federal Sources	527	2,893	448.5
State Sources	5,931	17,227	190.5
Local Sources	8,320	21,817	162.2
Expenditures (millions)	$16,476	$42,380	157.2
Gross National Product (billions) (1961 and 1971)	$ 520.1	$1,046.8	101.3
School Revenue as a Percent of GNP	2.8	4.0	40.8
Consumer Price Index (1967 = 100) (1961 and 1971)	89.6	121.3	35.4

Sources: National Education Association, *Estimates of School Statistics*, 1960-61, 1970-71: *Economic Report of the President*, January 1972.

Student Achievement:Estimation Using Micro Data," *American Economic Review, Papers and Proceedings*, 61: 280-88 (May, 1971); Dave O'Neill, Burton Gray and Stanley Horowitz, "Educational Equality and Expenditure Equalization Orders: The Case of *Hobson v. Hansen*," *Journal of Human Resources*, Summer, 1972; Lewis J. Perl, "Family Background, Secondary School Expenditure and Student Ability," *Journal of Human Resources*, Spring 1973, p. 156-180.

[3]O'Neill, Gray and Horowitz, *op. cit.*

[4]Herbert J. Kiesling, "Measuring a Local Government Service: A Study of School Districts in New York State," *Review of Economics and Statistics*, 49: 356-67 (August 1967).

[5]Charles S. Benson *et al.*, *State and Local Fiscal Relationships in Public Education in California*, (Sacramento: Senate Fact Finding Committee on Revenue and Taxation, 1965).

[6]*Ibid.*, p. 56.

[7]Thomas I. Ribich, *Education and Poverty*, (Washington: Brookings Institution, 1968).

[8]James S. Coleman *et al.*, *Equality of Educational Opportunity* (Washington: Office of Education, 1966).

[9]Samuel Bowles and Henry M. Levin, "The Determinants of Scholastic Achievement: An Appraisal of Some Recent Evidence," *Journal of Human Resources*, 3: 1-24 (Winter, 1968).

[10]These points are illustrated most clearly in a numerical example. See Glen Cain and Harold W. Watts, "Problems in Making Policy Inferences from the Coleman Report," *American Sociological Review*, 35: 228-41 (April, 1970).

[11]Further comments on the Coleman report may be found in the *Harvard Educational Review*, Winter, 1968, published in book form as *Equal Educational Opportunity*, (Cambridge: Harvard, 1969).

[12]Samuel Bowles, "Towards an Educational Production Function," in W. Lee Hansen (ed.), *Education, Income, and Human Capital*, (New York: National Bureau of Economic Research, 1970).

[13]Bowles, p. 47.

[14]*Ibid.*, p. 51.

[15]Stephen Michelson, "The Association of Teacher Resourceness with Children's Characteristics," in *Do Teachers Make a Difference?* (Washington: U.S. Office of Education, 1970). This volume also contains useful studies by Hanushek, Levin, and Mayeske.

[16]James W. Guthrie, George B. Kleindorfer, Henry M. Levin, and Robert T. Stout, *Schools and Inequality* (Cambridge: MIT Press, 1971), pp. 84-90.

[17]Christopher Jencks, "The Coleman Report and the Conventional Wisdom," in Daniel P. Moynihan and Frederick Mosteller (eds.), in *On Equality of Educational Opportunity* (New York: Random House, 1972).

[18]Jencks, footnote 21; this contention is disputed vigorously by Michelson, *op. cit.*, pp. 127-28.

[19]Jencks, section 3.

[20]Dave M. O'Neill, Burton Gray, and Stanley Horowitz, "Educational Equality and Expenditure Equalization Orders: The Case of Hobson v. Hansen," *Journal of Human Resources*, Summer, 1972.

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