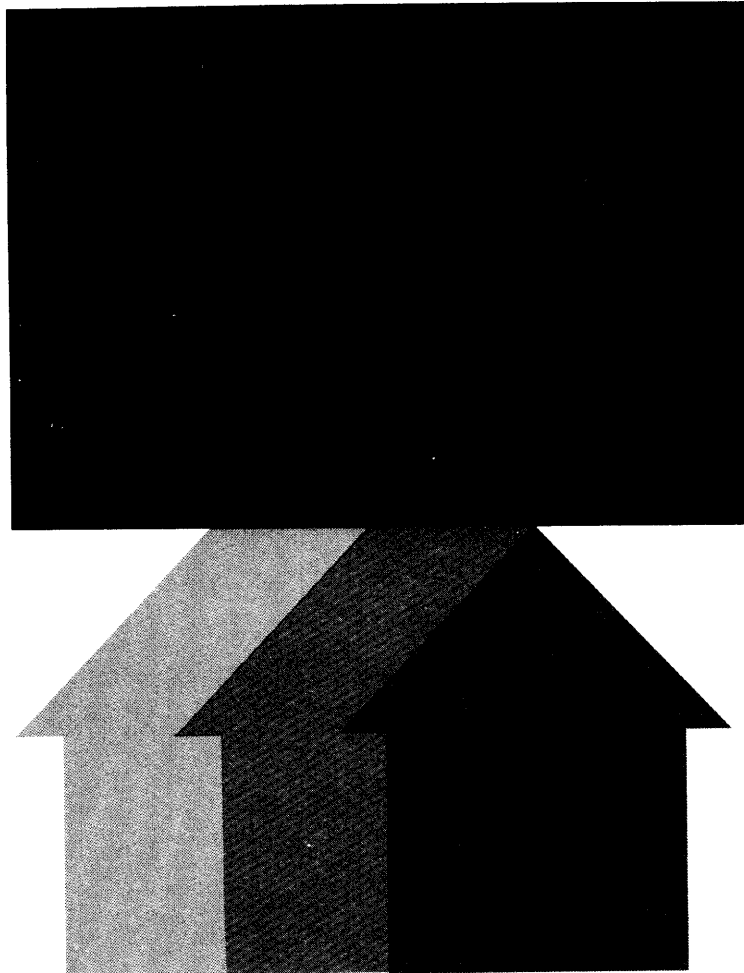


State Limitations On Local Taxes & Expenditures

Advisory Commission on
Intergovernmental Relations
Washington, D. C. 20575
February, 1977
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Preface

Periodically the Commission is forced by events to revisit an area of intergovernmental relations that it has studied previously. The subject of state-imposed limits on local taxing and spending authority is one such area. The Commission renewed its interest because of the resurgence, during the early 1970s, of state legislation to curb the growth of the local property tax.

In setting up the Commission, Congress charged it to consider on its own initiative, ways and means of fostering better relations between the levels of government. The improvement of state-local fiscal relations constitutes an inexhaustible source of challenge in this regard. In this report, the Commission set out to define for our federal system the accommodation appropriate to preserving both local fiscal autonomy and state control of local fiscal authority.

This report and its accompanying recommendations were adopted and approved for publication at the August 30, 1976, meeting of the Commission.

Robert E. Merriam
Chairman

Acknowledgements

This study represents the combined research and analytical skills of Michael Bell, Ronald Fisher, and Will Myers. Mr. Myers edited the report for publication. John Shannon, assistant director, exercised general supervision over the entire report.

To compile data and understand the practical effect of state-imposed restrictions on local tax and spending powers, the Commission staff sought and obtained help from state attorneys-general, from other state officials usually in departments of taxation or of local affairs, from state and local elected officials, and from directors of state municipal and county leagues.

The Commission and its staff greatly benefited from critical evaluation of the draft report by the following individuals: Robert Lewis, James Guest, Ed Johnson, Terry Mattock, Raymond C. Sittig, George Bell, Carl Ogden, Carol Berenson,

Richard DeCair, Leo Penne, Russ Murray, Frank W. Haines, John Callahan, and Paul Gilje.

Frank Tippett gave freely of his knowledge and storehouse of state-local finance information. Ruth Phillips and Lavinia Clark contributed their considerable secretarial and typing skills to the completion of the report.

While all of the aforementioned persons influenced the shape and content of this report, only the Commission and its staff should be held responsible for the published document.

Wayne F. Anderson
Executive Director

John Shannon
Assistant Director
Taxation and Finance

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Chapter I

Findings and Recommendations

In this report, the Advisory Commission on Intergovernmental Relations examines the restrictions, if any, that state governments have placed on the power of local governments to tax and spend. In 1962, the Commission supported a policy of local fiscal autonomy by adopting an approach that called on state governments to strike the fiscal shackles on local taxing and spending powers.

Recent events clearly indicate, however, that a growing number of states are fashioning additional and tighter restrictions on local authority.

Five factors have combined to promote greater state control over local fiscal affairs:

- 1) the public demand for property tax relief;
- 2) court-mandated upgrading of assessment practices;
- 3) state assumption of an increasing share of state-local expenditure responsibilities;
- 4) state efforts to control the growth in school spending; and
- 5) a perception by state legislators that local officials need state-imposed restrictions on local tax and spending powers in order to withstand the pres-

sure for additional spending in general and for employee wages and fringe benefits in particular.

The Commission's interest in this field is to develop a policy to reconcile or balance the conflicting interest of local government officials for maintaining a high degree of local fiscal flexibility and of state officials for achieving certain property tax relief and political accountability objectives.

EARLIER ACIR ACTION

The Advisory Commission on Intergovernmental Relations considered the issue of property tax limitations in 1962 and set out a series of recommendations.¹ The Commission favored "the lifting of constitutional and statutory limitations on local powers to raise property tax revenues."

Recognizing that some states would find it impractical to follow completely this recommendation, the Commission developed eight guidelines on the use of limits. The Commission said that statutory limits were preferable to constitutional ones, that rate limits should be specified in terms of full market value, that broad limitations were less damaging than limits on specific functions, that limits should exclude debt service and pay-as-you-go capital outlays, that relief from limits in case of a demonstrable need should be available from a state agency, that local officials should have recourse to the electorate to exceed the limit to meet public demand, that the electorate should also have authority to initiate a vote on any proposal to exceed the limits, that limits should cover all overlapping local taxing jurisdictions, and that home rule municipalities should be exempted from general limits.

FINDINGS

This report updates the Commission's earlier analysis of the effect of local tax limits generally and discusses the rationale and form of the several new types of state-imposed limitations on local fiscal authority including property tax levy limits, full disclosure requirements for the effect of assessment increases on the local property tax levy, and local expenditure lids. This second generation analysis of state-imposed

taxing and spending restrictions produced the following findings.

New Local Fiscal Controls

- **Since 1970, 14 states and the District of Columbia have enacted some form of new control on local taxing and spending powers.** Moreover, 14 of these 15 jurisdictions have acted since 1972, and five of these states enacted new limit laws as recently as 1976. In some cases, these new controls complement existing property tax limits while, in other cases, they were substituted for the existing limits.
- These new controls differ significantly from the property tax rate limits that were the traditional form of restriction on local (fiscal) powers. Nine of the states recently departing from the traditional rate limit have opted for some form of property tax levy limit. These states are Kansas, Minnesota, Wisconsin, Indiana, California, Washington, Alaska, Iowa, and Ohio. Five jurisdictions have enacted a "full disclosure" law setting up a public hearing procedure to affect the property tax levy. They are Florida, Montana, Hawaii, Virginia, and the District of Columbia. New Jersey is the one state that has enacted an explicit expenditure lid on local governments.
- These new controls differ from previous limits in form, yet the rationale for enacting them generally has not changed although the environment in which they operate is different. The new controls stem from concern for high property tax burdens and the growth of local government expenditures. They also result from the enactment of new state aid programs and grants of new tax authority to local governments.
- The new levy limits generally restrict the growth of property tax levies to some specified annual increase. Relief from the new levy limits can be ob-

tained from the electorate. In addition, states frequently empower a state agency to grant relief from the limits for specified reasons. All of the states that have enacted new levy controls and which allow the limit to be exceeded only by referendum have done so in conjunction with other state actions providing local revenue diversification and/or increased state financial aid. In some states, penalty in the form of lower state aid payments exists if local jurisdictions exceed the levy limit without proper authority to do so.

- The "full disclosure" restriction requires that local elected officials provide a warning to taxpayers that property tax levies will be increased. The procedure requires that a rate be established to raise the same property tax revenue as in the previous year, or, in some cases, a specified, limited amount above last year. To set a higher rate, the local governing board must prominently advertise its intent, hold a public hearing, and subsequently vote the higher millage at a meeting of the board.
- All the states enacting new controls have relied exclusively on statutory, rather than constitutional, means for implementing them. Similarly, all of the new controls have been broadbased laws rather than narrow limitations directed at specific expenditure functions.

GENERAL IMPACT OF LIMITS ON EXPENDITURES AND PROPERTY TAXES

- **The existence of local tax limits is associated with a lower level of local own-source per capita expenditures than one would expect given the levels of income, state and Federal aid, urbanization, and expenditure centralization in the state.** States with limits are associated, on average, with a 6-8 percent lower level of local own-source per capita expenditures, all other factors constant. That is, among two identical states, except that

one has local tax limits and the other does not, lower own-source per capita local expenditures are expected in the state with limits.

- When states are divided into three groups—those with no limits, those with rate limits, and those with levy limits—the tendency for local governments in states with some form of control to have lower local own-source per capita expenditures is generally confirmed. Because most levy limit states have enacted their laws only recently, the ultimate total impact of these new limits, if any, is not yet evident from statistical research.
- Per capita income is a significant factor associated with the variation in local own-source per capita expenditures only for those states with limits. One possible explanation is that states whose local government expenditures are highly sensitive to changes in income are precisely those states which find it necessary to institute limits.
- **The bulk of the evidence suggests that local tax limits do not affect total state-local expenditures much.** There is, however, a small tendency for lower per capita state-local expenditures in states with property tax rate limits than in other states, all other factors equal. In contrast, those states with levy limits exhibit no tendency for lower per capita state-local expenditures than expected.
- The evidence suggests that the share of total local own-source tax revenue comprised of property taxes is not greatly affected by the existence of local property tax limits. There is a small tendency, however, for the property tax to play a relatively less important role in financing local government expenditures in those states with rate limits than in those states with levy limits or no limits.
- The degree to which local governments use the property tax relative to other

sources in generating revenue (the degree of revenue diversification) depends on the legal availability of alternative local tax sources (specifically a local sales or income tax) and on the degree of revenue centralization in the state. Generally, the greater the state's share of *total state-local* revenue, the lower the share of *local* own-source revenue from the *property tax*, all other factors constant. Similarly, the share of local own-source revenue from the property tax is lower in states that allow local sales or income taxes.

- **The evidence suggests that local governments in states with tax limits have lower property tax levies than they would be expected to have without limits.** This inference follows directly from the fact that local expenditure levels are lower than otherwise expected in states with limits while the property tax share of local revenues is the same or slightly lower than expected in the limit states.
- States with *levy* limits have a slightly above average experience in assessing property near the state-imposed assessment-full value ratio, while states without limits have a slightly below average experience. States with *rate* limits are about at the average. Because such factors as economic conditions and assessment practices vary between these states, it is important to note that the analysis is incomplete and shows only association.
- There is some evidence—albeit very inconclusive—which suggests that states without limits rely on special districts to provide public goods to a lesser extent than states with limits. Again, it should be noted that this result demonstrates weak association rather than causation.

THE IMPACT OF THE NEW CONTROLS

- Four states (Florida, Hawaii, Montana,

and Virginia) and the District of Columbia have recently enacted full disclosure requirements with respect to property tax levies, but there has been too little experience yet to draw any major conclusions about their impact.

- Among the seven states that have enacted some form of general levy limit (excluding Alaska and Ohio), **there is evidence that the limit, in conjunction with increases in state aid or new local tax options, has reduced the growth of property tax burdens.** In both Kansas and Indiana, local governments have enacted new sales or income taxes with a subsequent slowing of increases in property taxes. In California, Minnesota, and Wisconsin, there have also been reductions in the rate of increase of property taxes, although in these states large increases in state aid were important factors.
- Tax and spending limits on school districts designed to provide local property tax relief and to assist in reducing the expenditure variation between rich and poor school districts, have been an increasingly important component in education finance reform legislation. While these controls have been effective in holding down the rate of growth of education expenditures, they have been significantly less effective in reducing the expenditure variation between rich and poor districts.

INFLATION AND LIMITS

- State laws which control expenditures either directly or indirectly by controlling tax levies are more constraining than other limits during periods of rapid inflation. If the rate of inflation exceeds the expenditure growth allowed by law, there may be a significant negative effect on the real level of government expenditures, requiring cuts in current programs.
- Traditional *rate* limits become less constraining in periods of rapid inflation. Property tax levies under a *rate* limit can

increase as fast as assessed values grow even when a jurisdiction is at the maximum rate.

LIMITS AND COLLECTIVE BARGAINING

- Effective and broadbased limits that restrict the growth of local expenditures may alter the relative bargaining strength of unions and local governments. It is not possible, however, to describe whether and to what degree limits change the outcome of the bargaining process because local governments have numerous fiscal alternatives to a property tax increase.

LIMITS IN A SYSTEM OF PROPERTY TAX RELIEF

- Local tax limits must be evaluated in the context of the entire state-local fiscal system. Tax limits may be an integral part of a state tax relief package designed as a complement to state aids that are tied to local tax or expenditure levels. At the same time, tax limits may act perversely on state programs designed to expand local spending in specific functional areas.

LIMITS, FISCAL NOTES, AND MANDATED COSTS

- **State efforts to impose tax and expenditure controls on local government are partially responsible for the growing local insistence that state legislators attach a fiscal note (a fiscal impact statement) on all bills that would add costs to local government operations.** In recent years, seven states have adopted this fiscal note procedure in order to assess the cost and assign political responsibility for state laws mandating activities that must be financed by local governments.
- Three states have made specific provision in their limit laws that the limit can be exceeded in the case of local expendi-

ture increases required to comply with new state and Federal laws. California reimburses local governments for such state-mandated cost increases while New Jersey and Minnesota exclude state-mandated expenditures from their limits.

CURRENT POLICY ISSUES

At least five major policy issues are raised by the resurgent state interest in placing lids on local spending in general and on local property taxes in particular.

First, lid laws raise the Federal and state mandate issue. The more restraint the state builds into the local system the more persuasive becomes the local case for full reimbursement for any state-mandated action that either increases costs or reduces the local revenue base. As noted earlier, California handled this issue by providing for reimbursement for any added local cost caused by state legislative mandate or any revenue loss due to a state-mandated tax exemption. California law allows localities to increase the maximum rate by an amount sufficient to cover the cost of Federal and court mandates.

Second, the imposition of a rigorous lid on local spending can create a rather serious state aid "rationalization" problem for some states. The problem in some states is to reconcile provisions in state law that lead to contradictory local fiscal signals. For example, a state that has been providing financial inducement for greater local fiscal effort must rationalize the continuation of such a policy once it embarks on a serious effort to slow down the growth of local taxes. Pursuit of both policies is akin to turning on both the air conditioner and the furnace.

Third, widespread state adoption of more rigorous property tax lid laws reinforces the factors that are pushing local government into increasing dependency on Federal and state aid. Since 1957, Federal and state aid has risen from 31 percent to 45 percent of total local general revenue. During this same period, the property tax contribution to local general revenue has fallen from 48 percent to 32 percent of local revenue.

Fourth, state adoption of a rigorous lid law also works against representative local government by transferring from locally elected representatives to the general electorate the power to break through the state-imposed limitation. Virtually all of the recent lid laws allow the public referendum to be used as the key to unlock the state-imposed fiscal shackles. Some will argue that this is all together fitting and proper—that “the voice of the people is the voice of God.”

In sharp contrast, others will contend that this referendum solution poorly serves representative local government because it can provide a far too convenient out when local officials are confronted with tough budgetary choices.

Fifth, tax and spending limits raise a fundamental political question—is it possible to permit local officials to retain considerable fiscal power while at the same time allowing state officials to take political credit for the introduction of a property tax relief program? This dilemma can only be resolved by securing state-local agreement on the rules to govern the resolution of this conflict.

RECOMMENDATIONS

General Philosophy

The Commission believes strongly in the authority of local officials, who are accountable to the electorate, to determine local tax and expenditure policies. The Commission also recognizes that states may have a legitimate desire to stabilize local property tax levels. In that regard, local property tax limits should be used only if a state provides local jurisdictions effective access to local non-property tax revenue sources or if a state shares state revenue with local jurisdictions on an unconditional basis so that local governments maintain sufficient revenue capacity to meet public demands.*

This recommendation revises the position the Commission adopted in 1962 by setting out two rather restrictive conditions under which local property tax limits may be justified. Tax limits are justified (1) when local property tax limits are intended to stabilize property tax levels and (2) when state-imposed controls do not unduly

restrict local revenue raising or spending capacity. The Commission thus concedes that when local governments are compensated by a different tax source or by a state revenue sharing program, the state can enact limits to achieve its fiscal objectives. The Commission desires that tax and spending limits not impair local political authority any more than is necessary to accomplish a legitimate state goal.

Full Disclosure of Tax Increase Action

Under our democratic system, justice and fair play demand that citizens have an opportunity to be informed about the fiscal affairs of their government and to express their views on major fiscal decisions. In connection with its monitoring of Federal general revenue sharing, the Commission recommended that states and local general governments provide summary information on their budgets to the general public and provide adequate advanced notice of a public hearing where citizens could make their views known.* The Commission believes that one of the specific elements that should be disclosed to the public is the effect changes in assessments have on the local property tax levy.

The Commission recognizes that citizens should always have access to complete and intelligible information about local fiscal affairs. The Commission recommends that all local governments adopt, or be required to adopt, a full disclosure policy which requires, in advance of public hearings, the preparation and dissemination of an analysis of revenue changes attributed to rate revisions as well as those which result from property assessment reevaluations or other non-legislative actions. This would also assure the proper recognition of political responsibility.

The policy of full disclosure advanced in this recommendation stands between complete local fiscal discretion uninhibited by any state-imposed controls on tax and spending decisions and rigid state-imposed lids on local expenditure increases. The adoption of full disclosure procedures would strengthen those tendencies in the body politic that oppose sharp increases in local taxes and budgets.

*Senator Robert Knowles (Wisc.) dissents from this recommendation.

*This position was set in a resolution adopted at a regular Commission meeting on December 14, 1974. See ACIR *State Legislative Program*, Vol. 4, M-95 (Washington, D.C. U.S. Government Printing Office), November 1975, p. 52.

Through full disclosure procedures, it is hoped that political responsibility for tax increases will come to rest on appropriate officials. For example, taxpayers will be less inclined to hold the local assessor responsible for an increased tax bill when they know that, as a result of a general rise in assessments, the property tax rate would be a specified lesser amount if the local government collected the same amount of money as in the previous year. Local elected officials, who determine the tax rate, would be made directly accountable to the public.

State Fiscal Notes

The Commission also recognizes a responsibility of state government to make both state legislators and citizens aware of the fiscal impact on local governments of state legislative actions. Therefore, as a counterpart of the package providing citizens complete information about fiscal affairs, the Commission recommends that states include, with all major state legislation and proposed administrative regulations affecting local government revenues or expenditures, an explicit note setting out the fiscal impact of that legislation on those local governments.

The call for a fiscal note on major state legislation affecting the revenue raising capacity or expenditure requirements of local governments is a complement to the recommendation for total public information on local tax changes. If citizens are to be fully aware of the reasons for any tax change, they must be aware of external forces, including state action, that might be a factor. Moreover, state legislators deserve to have more complete information about the possible fiscal effect of legislation they must consider. The operation of a fiscal note program may present difficult technical and administrative problems. For example, there is often a serious question about the accuracy of any noted fiscal impacts. In addition, as a bill is amended, the estimated fiscal effect needs to be continually updated—often an onerous task. This recommendation, nevertheless, is a step in the right direction consistent with the policy of full disclosure of information on fiscal decisions.

The complementary recommendations for full disclosure of the effect of local assessment in-

creases on the tax rate and for disclosure of the state-imposed costs on local governments would help clarify where responsibility lies in two situations with important local property tax implications.

First, this procedure will be particularly helpful when, through inflation or through state administrative or court order, a massive increase in local property tax assessment occurs. Second, this property tax full disclosure policy will assist a taxpayer in knowing the exact source of an increase in the property tax despite the fact that there may be several overlapping local jurisdictions all contributing to his property tax bill.

Those skeptical of the worth of full disclosure procedures at the local and state level argue that the requirement represents an unnecessary administrative burden for local officials. They suggest that taxpayers are already informed and concerned, not only about property tax increases, but also about the spending priorities of their local government. The requirement that officials advertise their intent to raise property taxes in a newspaper is attacked as a device which mainly enriches newspapers.

Nevertheless, the Commission believes that, on balance, the adoption of full disclosure procedures is a positive program which will enhance public participation in the conduct of local government and therefore stands as an effective compromise policy between no state control of local taxes and substantial control through stringent, state-imposed limits.

Temporary Restrictions

In its statement of general philosophy with respect to state-imposed local tax and spending limits, the Commission acknowledged two circumstances where state fiscal objectives could take precedence over local fiscal flexibility. Where a state provides local jurisdictions either effective access to local non-property revenue sources or initiates a program of sharing revenue on an unconditional basis it may have a defensible need to impose local tax or spending restrictions. In each case, state-local fiscal relations have been fundamentally altered and the state has increased the potential financial resources of local government by a policy action

where state officials are held fiscally accountable.

Although the Commission remains generally opposed to overall controls on local taxing and spending authority imposed by the state, the Commission does recognize several situations in which state-imposed local tax limits may be temporarily warranted both to insure the effectiveness of a specific state program and to minimize any misconception about the responsibility for a local tax increase. In this context, the Commission recognizes the necessity of appropriate state-imposed local tax controls in the following instances:

When a state introduces a major new program of financial aid for the purpose of providing greater fiscal equalization and/or local property tax relief—either through increased aid flows or by assumption of financing of a previously local function—state-imposed controls on local property taxes may be necessary for a limited period to enable property taxes to be stabilized at a lower level. Once this stabilization action has taken place, local governments should then be allowed full access to the property tax.

When a state orders a major increase in real property assessments, a temporary local property tax limit may be warranted during the immediate period of transition to stabilize the property tax rate at a lower level.

In designing any such state-imposed tax and expenditure controls, the Commission recommends that allowance be made in all state-imposed local levy or expenditure limits for local cost increases mandated by the administrative, legislative, or judicial actions of the Federal or state government, for relatively large changes in the population of local jurisdictions, for the costs of pay-as-you-go capital outlays, for servicing debt, for changes in the governmental level at which a function is performed,

for natural disasters, for inflation, and for other appropriate reasons determined by the designated state agency.*

In addition to the legitimacy of state-imposed controls on local tax and spending powers where state-local fiscal relations are changed fundamentally, the Commission recognizes two circumstances in which states may find a defensible need to impose temporary tax and spending restrictions on localities. In each instance, again, the state has increased the potential financial resources of local governments by an action for which state officials, again, will be held politically accountable.

First, a state may increase funding of local governments in general or of a specific local function. For example, a state may increase its funding of school expenditures both to reduce property taxes and/or to equalize expenditure levels. Local tax controls may be needed in this case so that local officials do not inordinately raise property taxes simultaneously with the increased financial contribution. Second, at the time of a state-ordered reevaluation, local officials are furnished an opportunity to increase local property taxes at the expense of the assessor or the state officials. Again, temporary local tax controls during the reassessment period are a protection against the misdirection of political responsibility for higher taxes.

In most of the states that enacted property tax levy limits since 1970, at least one of the situations described in this recommendation did exist. Thus, the recommendation is not only rational in concept but grounded in recent state practice.

Staunch supporters of local fiscal discretion would argue that appropriate and sufficient protection in these special cases is provided by the rigorous property tax public hearing and full disclosure procedure set out in the Commission's recommendation. Where policymakers can be

*Governor Otis Bowen (Ind.) concurs in the recommendation and emphasizes the following additional concern:

The policy position as proposed does not address the important public issue of lasting property tax relief. The experience of Indiana in the 1960s exemplifies the temporary nature of property tax relief in the absence of effective limitations on utilizing the property tax as a revenue source. Therefore, I am a

believer in controls but with utilization of a control board that, with proof of need, can grant exceptions to the rules. If lasting property tax relief is to be fulfilled, such controls are necessary. Certainly, access to alternative funds such as a local option income tax or by county as well as state revenue sharing with local units of government would provide necessary alternative revenue sources.

convinced of this view of the full disclosure approach, even temporary limits may not be required to guard effectively against the misdirection of political responsibility that might occur in these two special cases. The Commission has no quarrel with supporters of the full disclosure approach but recognizes that state legislators may want greater assurance that state fiscal objectives will be achieved. Hence, the Commission recommends that policymakers take that extra step beyond the full disclosure approach—temporary limits in addition to the full disclosure procedure.

In light of the finding in this report that local tax limits are associated with lower local expenditures than otherwise expected, this recommendation notes several special factors that change the cost of providing local services. Because of their special nature, they represent factors that should lead to an allowance for variation from the rigid application of any tax limit. The Commission recommends that provision for adjustment be made specifically for cost increases required to comply with new Federal or state legal requirements, for disaster relief, for population changes, and for shifts in service function. In its 1962 recommendation in this field, the Commission recommended exclusion from tax limits for pay-as-you-go capital outlays and debt service. Pay-as-you-go capital outlays warrant exclusion both because such expenditures tend to fluctuate greatly from year to year and because limitation of such expenditures introduces an incentive for debt financing of capital expenditures. The debt service exclusion is intended primarily to hold down the cost of borrowing for local governments.

The Commission is persuaded that mandated cost increases should be excluded from tax and spending limits by the view that the state has a particularly strong, direct, political responsibility not to further reduce the ability of local governments to meet local public service needs by forcing them to absorb within their tax and spend limits the increased costs of complying with new Federal or state laws and administrative regulations. This recommendation that states should exclude mandated cost increases from control by any limit may not go as far as some local officials would like. They contend that a state should reimburse local governments for mandated costs. The issue of state reimburse-

ment for costs mandated on local governments will be covered in a future ACIR report.

In summary, the policy recommendations of this Commission can be described as answering a difficult political question—**Is it possible for local officials to retain considerable fiscal power while, at the same time, permitting state officials to take credit for state-financed property tax relief?** The Commission's answer to this question is "yes" provided state and local officials observe four rules of "fiscal fair play."

FOUR RULES OF "FISCAL FAIR PLAY"

First, the state is justified in imposing *permanent* lids only if it is willing to make adequate compensation—the fiscal equivalent in the form of either a new non-property tax source or a substantial state revenue sharing program.

Second, when state policymakers raise state taxes in order to finance a new program of property tax relief, lids on local government levies may be justified on a *temporary* basis so as to enable property tax rates to stabilize at a lower level. This temporary stabilization action can be justified, for example, to insure that a state decision to finance a substantially larger share of school costs is not immediately wiped out by the decision of local officials to recapture for themselves (during a period of taxpayer confusion) that part of the property tax that has just been "freed up" by the state. Without this protection, state officials can be expected to be very reluctant to assume the political risks involved in underwriting this form of local property tax relief.

Third, a temporary local tax rate rollback or levy limitation may also be justified in those cases where the state tax department or the courts order a massive increase in local property tax assessment levels. Understandably, state officials do not want to be placed in a position of becoming the "fall guys" if local ratemakers (again during a period of taxpayer confusion) fail to cut back their tax rates commensurate with an unusually large increase in the assessment base.

The emphasis, however, must be on the temporary character of state tax lids or rollback action. Once the stabilization action has taken place, local decisionmakers should be allowed

full access to the property tax on the assumption that they—not state policymakers—will then be held politically responsible for any subsequent increase in local property tax levels.

Alternatively, the new “truth in taxation” plan, pioneered by Florida and adopted by several other states, may prove to be far superior than “temporary” state lid laws in reconciling the local demand for fiscal flexibility and state policymakers’ fears about the misdirection of political responsibility. Under the Florida plan, local officials are free to set rates as high as they desire provided they follow a rigorous full disclosure procedure and thereby assume complete political responsibility for the resultant increase in taxes.

Fourth, elected local officials in states where lids are imposed are justified in insisting that state legislators attach a fiscal note (a fiscal impact statement) on all bills that would man-

date added local costs or erode the local tax base. In recent years, seven states have adopted this procedure to assess the cost and to assign political responsibility for state mandates that must be financed by local governments.

Thus, the answer to the fundamental political question is: Yes, it should be possible to allow local officials wide fiscal latitude while still protecting the legitimate political concerns of state policymakers. What is required is Marquis of Queensberry-type rules to govern state-local fiscal relations, thereby ensuring that neither side hits the other below the fiscal belt.

FOOTNOTE

¹ACIR, *State Constitutional and Statutory Restrictions on Local Taxing Powers*, A-14 (Washington, D.C.: U.S. Government Printing Office), October 1962.

The Theory and Practice of Fiscal Control

Property tax rate limits originated in the late 19th century. The first overall limits appeared in Rhode Island in 1870, followed by Nevada (1895), Oklahoma (1907), and Ohio (1911). Oregon adopted a 6 percent limit on the growth of property tax levies in 1916, the control it retains today. Other states adopted various limits on taxes for specific functions. The goals of these early controls were diverse. Some of these limits were initiated to protect property taxpayers from undue escalation of the tax rate during the Panic of 1870. More importantly, however, these limits were initiated in an effort to limit the growth of local governments in the face of proliferating expenditures for the construction of roads and canals for private benefit. These early tax limits were often tied to limits on local borrowing, an issue which was viewed as a more serious problem. Because assessed valuations increased greatly in the first years of the 20th century and because many new local governments came into existence then, these early limits were not greatly effective in limiting growth of local revenue.

Another push for property tax limits came during the depression in the 1930s. Two forces were in operation then. Property values, and, after some lag, assessed values dropped sharply resulting in falling local revenue. At the same

time, individuals and businesses found it increasingly difficult to meet their property tax bills and thus tax delinquencies soared. Consequently, great pressure was exerted by several groups, especially the real estate profession, for strict overall limits to force reduction in property tax levies. Some states responded—Indiana, Michigan, Washington, and West Virginia enacted new overall tax rate limits in 1932 and New Mexico followed in 1933 when Ohio and Oklahoma revised their existing tax rate limits.

In addition to the overall property tax rate limits in the above states, limits for specific functions were also enacted by many states. This type of control served, in some cases, to avoid enacting overall limits and, in other cases, to set limits on expenditures for new functions of local government. Some proponents argued that limits provided an incentive for improved property tax administration by encouraging uniform, full value assessment—to get the maximum yield from the tax. It seems clear, however, that the basic rationale for property tax limits in the 1930s was property tax relief. Hillhouse and Welch remarked in 1937, “The overall limitation movement is well designed to accomplish one end—reduction in real estate taxes. All of its other objectives are professed in order to give it wider public appeal. . . .”²

FISCAL CONTROL POINTS

Today, state tax and expenditure controls on local governments are still directed mainly at limiting the use of the local property tax. It is useful, therefore, to begin with a description of the taxing process and to establish certain terminology that will recur throughout this study.

The total property tax *levy* is simply the property tax *rate* multiplied by the appropriate *base*.³ The property tax *rate* is generally expressed in terms of mills per dollar or dollars and cents per \$100 of assessed value. In general, property tax *rates* are both set and changed only by action of the local legislative body.

The property tax *base* to which a specific *rate* is applied is established by an assessor. Initially, he estimates the full market value of all properties in a jurisdiction using any or all of the three appraisal approaches—sales comparisons, income capitalization, or cost of reproduction less depreciation. These market value appraisals are then translated into assessed value by mul-

tiplying full market value by a specific *assessment ratio*. The assessment ratio may be established by state law or be the result of the application of local assessing practices. Once total assessed value is computed and all exclusions and exemptions are netted out, the remaining figure is the assessed value subject to taxation. This figure is the property tax *base* to which the tax *rate* is applied to obtain the property tax *levy*.

The property tax *levy*⁴ comprises only a portion—and, in some cases, a declining portion—of total local revenue. Included in total local revenue is money collected by the local jurisdiction from other available tax sources—for example, cigarette taxes, sales or other excise taxes, and payroll or commuter taxes—and from non-tax revenue sources such as user charges and state and federal aid.

Local appropriations for current operating expenses equal total local revenue minus debt service and any other trust fund activities. State and local policymakers may control local expenditures or taxes by restricting the change in any of the following fiscal elements—*assessment ratio, tax rate, tax base, tax levy, total revenue, or appropriations*.

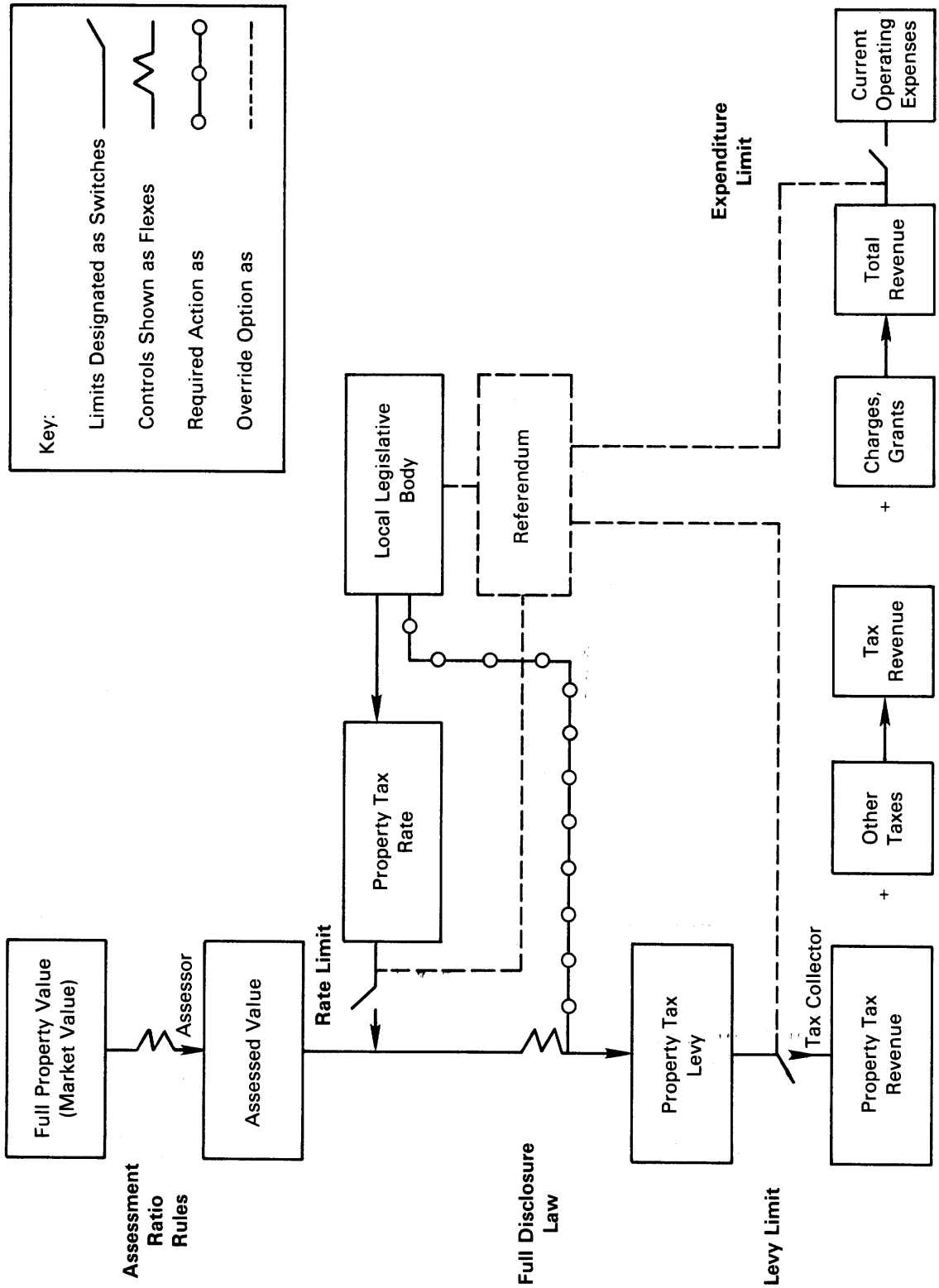
A schematic representation of the local revenue process, concentrating on the components of the property tax, is shown in *Figure 1*. Connections have been traced from the determination of property values to the setting of current operating expenditures. This diagram also shows how various state-imposed controls interrupt and impact on the local revenue process. The laws which erect absolute barriers beyond which local governing units cannot move constitute tax or spending limits and are represented in the diagram as “switches” or gaps in the line. The rules which define specific conditions or procedures that local governing boards must follow in observing tax or spending limits are represented by alternative routes (or resistors, to borrow from electronics) in the local budget process. The diagram includes five controls, although no local government is likely to experience all of them simultaneously.

Rate Limits

The most common type of control on local fiscal activity is the limitation on the local property tax rate. The rate limit, usually ex-

LIMITS AND CONTROLS IN THE LOCAL PROPERTY TAX SYSTEM

Figure 1



pressed as the number of mills per dollar of assessed value, sets the maximum rate that may be applied against the assessed value of property without a vote of the electorate. The rate limit may be an overall limit, setting a maximum rate within which all overlapping jurisdictions must operate, or a series of specific limits imposing a maximum rate on each local jurisdiction or each specific local purpose. The limit is usually expressed in terms of the maximum rate applicable to taxable assessed value, but may apply to either full value or equalized value in some states. When a jurisdiction's tax rate has reached the rate ceiling, its property tax revenue can increase only as a result of an increase in assessed value.

Levy Limits

A levy limit, in contrast to a rate limit, establishes the maximum revenue that can be raised by a jurisdiction via the property tax.

The maximum is generally expressed as an allowed annual percentage increase in the property tax levy. If the assessed value of the jurisdiction increases substantially, either as a result of increases in property values or from a change in the assessment ratio, the property tax rate may have to be reduced to produce the controlled levy. In addition, some states permit local governments to exceed the levy limit in the case of, for example, population increase, disaster, or cost increase due to inflation.

A limit on the levy also results when the tax rate is fixed at the level of a base year since the levy is then limited to the annual increase in the tax base.

Full Disclosure Laws

Full disclosure is the term applied to a new form of control that relies not on explicit tax or spending lids but on strengthening the limitations on spending inherent in the existing political process. Full disclosure is designed to assure public discussion of tax decisions after publicity but before proposed tax and expenditure decisions become final.

Under a full disclosure procedure, a property tax rate is established that will provide a levy equal to the previous year's when applied to some percentage of the current year's tax base. (Thus, where the current year tax base is higher

than the previous year's by a significant percentage, the established rate may be lower than the rate for the previous year.) In order to increase the levy above the amount derived by using the established rate, the local governing board must advertise its intent to set a higher rate, hold public hearings, and then approve the higher rate by a vote of the governing board.

The full disclosure approach is intended to serve two purposes. It will bring public pressure to bear on local government expenditure increases. It will direct political responsibility for any property tax increase to the local governing body, whose task is to determine the spending level and required tax rate, and away from either the local assessor or state officials, whose task is to determine taxable value.

Expenditure or Total Revenue Limits

An expenditure lid places a ceiling on the amount a particular jurisdiction can either appropriate or spend during a year. The expenditure lid is most often expressed in terms of a maximum allowed percentage increase in annual operating expenses. Expenditure lids are most prevalent in the school finance reform area. When New Jersey enacted its income tax to help finance elementary and secondary education, it earmarked funds for property tax relief and put a lid on municipal spending that limits the annual growth in final appropriations to 5 percent without voter approval.⁵ The New Jersey legislation placed a "cap" on the county tax levy rather than final appropriations.

Assessment Ratio Rules

Although not traditionally considered as a tax limit, a fractional assessment standard required by state law also may control the use of the local property tax. Even though a state has a uniform assessment rule, actual assessments often vary from the percentage of full market value at which property is to be legally assessed because of difficulties in administration. When the fractional standard is enforced, it can stop local governments from increasing property tax revenue by raising the ratio of assessed value to market value.

Because local tax and spending powers can be controlled at various points, an evaluation of tax limits must include consideration of the total

environment of local fiscal policy. Returning to Figure 1, limits on the tax rate, the levy, and appropriations are represented as switches in the local budget process that are opened automatically if the limit is exceeded and can be closed again only if approval is given through a referendum or if a tax reduction is made. In contrast, a full disclosure law does not really "break" the local budget circuit but rather builds in an impediment to more local spending in certain situations. Specifically, property tax increases are subjected to the "resistance" offered by a public hearing and open vote by the local governing body. The enforcement of a fractional assessment standard can also set up a resistance and impede growth in the local tax base and consequently local spending.

Figure 2

RECENT STATE LAWS LIMITING LOCAL PROPERTY TAX LEVIES

Alaska	AS 43.58
Arizona	Sec. 42-304 ARS
California	Stat. 1972, Ch. 1406 Stat. 1973, Ch. 358 Stat. 1973, Ch. 208 Stat. 1976, Ch. 323
Colorado	Sec. 29-1-301 CRS
Florida	Ch. 70-368, Laws 1970
Hawaii	Act 229 (S.B. 2274), Laws 1976
Indiana	IC 6-1.1-19-1 H.B. 1051, Laws 1974
Kansas	Ch. 402, Laws 1970
Minnesota	Ch. 31 (H.F. 262), 1st Sp. Sess. 1971
Montana	Ch. 286 (S.B. 741), Laws 1974
New Jersey	A.B. 1738, 1976 Sess.
Oregon	Art. XI, Constitution
Virginia	Ch. 622, Laws 1975
Washington	Ch. 288, 1st Sp. Sess. Laws 1971
Wisconsin	Ch. 39, Laws 1975

SOURCE: ACIR Staff Compilation

Recent Enactments

Local tax and spending control enactments are a phenomenon of the 1970s (Figure 2). Two justifications are advanced most often in support of these new tax and spending limits: (1) to bring about or help bring about property tax relief; and (2) to control the growth of local government expenditures. This latter justification has been applied most frequently in the school finance area, where limits are intended to dampen the potential for per pupil expenditure variation between districts.

Some states have enacted "circuit-breaker" programs or have authorized local non-property taxes to provide direct property tax relief. Property tax relief is often obtainable directly without strict controls on local government growth by these means. Nonetheless, limits have, at times, been enacted to heighten the effectiveness of some of these relief programs.

The overall rationale for these new limits comes from recent heavy pressure on state-local budgets. The size of the state-local sector has been increasing rapidly in recent years. From 1953 to 1975, state-local taxes as a percent of personal income grew by about 57 percent.⁶ At the same time, the composition of state-local revenue has changed. By 1976, state and Federal aid comprised 43 percent of total local general revenue.⁷ States and localities are increasing their reliance on sales and income taxes.

Several other factors that influence governmental finance have contributed to the new interest in tax and expenditure limits. In recent years, the rate of inflation has been high, generating large increases in property assessments and sometimes large increases in property taxes. Second, the unionization of public employees has led to a new concern that collective bargaining agreements inevitably will lead to greater fiscal demands on state and local governments.

State-imposed controls on local powers to raise property tax revenue are described in Appendix B of this report and listed in Table 1.

FOOTNOTES

²A. M. Hillhouse and R. B. Welch, *Tax Limits Appraised*, Public Administration Service (Chicago, Ill.) 1937.

³The property tax levy is greater than property tax revenue by the amount of uncollected property tax bills.

Table 1

**STATE LIMITATIONS ON LOCAL GOVERNMENT POWER
TO RAISE PROPERTY TAX REVENUE, 1976**

States	No Limitations	Full Disclosure of Effect of Assessment Increases on Property Tax Rate ¹	Property Tax Rate Limitation ²	Property Tax Levy Limitation ³ (Levy= Rate x Tax Base)	Expenditure Limitation
ALABAMA			CMS		
ALASKA			M	M	
ARIZONA			M	CM	S
ARKANSAS			CMS		
CALIFORNIA			CMS	CMS	
COLORADO				CMS	
CONNECTICUT	M				
DELAWARE	MS		C		
DIST. OF COLUMBIA		M			
FLORIDA		CMS	CMS		
GEORGIA			CMS		
HAWAII	C	C			
IDAHO			CMS		
ILLINOIS			CMS		
INDIANA			CMS	CMS	
IOWA			CMS	CM	
KANSAS			CMS	CMS	S
KENTUCKY			CMS		
LOUISIANA			CMS		
MAINE	CM				S
MARYLAND	CM				
MASSACHUSETTS	M				
MICHIGAN			CM		
MINNESOTA			MS	CM	
MISSISSIPPI			CMS		
MISSOURI			CMS		
MONTANA		CM	CMS		
NEBRASKA			CMS		
NEVADA			CMS		
NEW HAMPSHIRE	M				
NEW JERSEY					CM
NEW MEXICO			CMS		
NEW YORK			CMS		
NORTH CAROLINA			CM		
NORTH DAKOTA			CMS		
OHIO			CMS		
OKLAHOMA			CMS		
OREGON				CMS	
PENNSYLVANIA			CMS		
RHODE ISLAND	M				

Table 1 (Cont.)

States	No Limitations	Full Disclosure of Effect of Assessment Increases on Property Tax Rate ¹	Property Tax Rate Limitation ²	Property Tax Levy Limitation ³ (Levy= Rate × Tax Base)	Expenditure Limitation
SOUTH CAROLINA	CM		S		
SOUTH DAKOTA			CMS		
TENNESSEE	CM				
TEXAS			CMS		
UTAH			CMS		
VERMONT	M				
VIRGINIA		CM			
WASHINGTON			CMS	CM	
WEST VIRGINIA			CMS		
WISCONSIN				CM	
WYOMING			CMS		

C = counties

M = municipalities

S = school districts (in some states school districts have no independent taxing authority or depend on county government for taxes, in which case the limits on the independent general government impact on school districts.)

¹Under a full disclosure procedure, a property tax rate is established that will provide a levy equal to the previous year's when applied to some percentage of the current year's tax base. In order to increase the levy above the amount derived by using the established rate the local governing board must advertise its intent to set a higher rate, hold public hearings, and thereafter approve, the higher rate by vote of the board.

²Property tax rate limitation sets a maximum rate that may be applied against the assessed value of property.

³Levy limitation places a maximum on the amount of revenue that can be raised by the property tax (*e.g.*, 106% of the prior year levy).

⁴For the sake of simplicity, assume no delinquencies so that property tax levies equal property tax collections.

⁵Proposals that place a lid on annual increases in state expenditures have been considered and rejected by the voters in California, Arizona, Michigan and Washington. The New Jersey legislature has, by law, limited the growth

of state expenditures to the percentage increase in per capita personal income from one year to the next.

⁶ACIR, *Significant Features of Fiscal Federalism*, 1976 Edition, M-106 (Washington, D.C.: U.S. Government Printing Office), p. 45.

⁷*Ibid.*, p. 4.

Impact of Tax Limits on Expenditures and Property Taxes

The general uncertainty about the actual effects of tax and spending limits has hindered discussion of their public policy aspects. Many of those who have opposed local tax limits, including this Commission, have been guided, in part, by the belief that limits are really not effective in controlling expenditures or in providing property tax relief. In contrast, officials proposing adoption of limits always argue that the limits will serve to place a control on local fiscal activity and thereby provide tax relief.

This section presents some general evidence on the impact of tax limits in four areas of fiscal concern. First, an analysis has been made to determine if the existence of tax limits is associated with a lower level of local public expenditure or relatively less reliance on the property tax as a source of local tax revenue. For this purpose, it is assumed that the local budget process can be characterized, in general, as a two-decision procedure. Officials select both the level of expenditure and the mix of revenue sources to be used.⁸ Once the level of expenditures and the revenue mix are determined for any jurisdiction, the property tax burden is also specified. Thus, a statistical examination of the relationship between the existence of limits and

both the level of expenditures and the degree of property tax reliance will give some indication of the limits' impact on expenditures, property tax burdens, and revenue diversification.

In addition, to allow comparison with the results in the Commission's 1962 study on tax limits, evidence has been gathered and analyzed to see whether there is a tendency for the imposition of tax limits to improve property tax administration (achieve closer compliance with state assessment law) or to encourage more use of special districts (as a means of avoiding the limit).

The Data

The statistical analysis providing evidence on the effects of local tax limits requires data both on fiscal variables and on the tax limit of various jurisdictions. Although tax limits apply to different types of local governments, all general purpose localities within any state are usually subject to the same type of limit. In this study, fiscal variables are represented by aggregate local fiscal data by state for fiscal year 1974.

Two different tests of the impact of tax limits were used. In the first test, states were divided into two groups based on whether or not any type of local tax limit existed in the state in fiscal 1974. In the second test, states were divided into three groups: those with no limits, those with statutory property tax rate limits only, and those with some form of levy limit (including full disclosure laws).⁹ The division of states according to this criteria is shown in Figure 3. Two cautionary notes about this second categorization are in order; (a) it represents the state tax limit structure as it was in fiscal 1974, (b) the statistical test of the situation in 1974 may reflect the impact of the previous rate limit structure rather than the new levy limit. Several of these states changed their limits shortly before 1974. Nine of the 12 states in the levy limit category enacted their limits since 1970 and eight since 1972. All nine of the levy limit states had some form of statutory property tax rate limit before enacting new levy limits.

Statistical Technique

In considering the relationship between limits and local expenditures and local government use of the property tax, one must recognize that

Figure 3

LOCAL TAX LIMITS IN 1974

Rate Limit	Levy Limit	No Limit
(26 States)	(12 States)	(12 States)
Alabama	Alaska	Connecticut
Arkansas	Arizona	Delaware
Georgia	California	Hawaii
Idaho	Colorado	Maine
Illinois	Florida	Maryland
Iowa	Indiana	Massachusetts
Kentucky	Kansas	New Hampshire
Louisiana	Minnesota	New Jersey
Michigan	Montana	Rhode Island
Mississippi	Oregon	Tennessee
Missouri	Washington	Vermont
Nebraska	Wisconsin	Virginia
Nevada		
New Mexico		
New York		
North Carolina		
North Dakota		
Ohio		
Oklahoma		
Pennsylvania		
South Carolina		
South Dakota		
Texas		
Utah		
West Virginia		
Wyoming		

there are numerous other factors—such as income and intergovernmental aid—which affect these fiscal variables and which vary between states. In order to assess the “true” effect of tax limits on expenditures and relative property tax use, it is necessary to correct for differences between states in these other factors. Thus, a technique of multiple regression analysis is used to hold constant other factors affecting local expenditures and relative property tax use so that the relationship with limits alone can be identified. The statistical tests indicate the general overall association between tax limits and local expenditures, revenue diversification, and property tax burdens.

The statistical analysis uses data for fiscal 1974 and measures differences between states at

one point in time. The cross section nature of the analysis presents some problems. First, states in the same group have used the limit existing in 1974 for different amounts of time. Thus, this test is not measuring the effect of limits after their operation for an equal number of years in all states. Second, this type of test does not offer explicit evidence on the dynamic response of fiscal variables to limits. Thus, this analysis is not a test of the hypothesis that limits have an impact for the several years immediately following their imposition after which they become ineffective. Such an issue requires a time series examination of a limit in a particular state.

IMPACT OF LIMITS ON LOCAL EXPENDITURES

The first issue tested is whether local jurisdictions under the influence of state-imposed tax limits have a lower level of local public expenditures than otherwise might be expected. On the basis of other statistical and theoretical analyses reported in public finance literature; one expects local expenditures to vary between states depending on the resources available, the cost of providing public services, difference in public preferences, and, in this case, whether tax limits are present or not. In the test at hand, local per capita public expenditures (less inter-governmental aids) are assumed to be a linear function (a simple additive relationship) of local per capita income, per capita state and Federal aid, the degree of urbanization in the state, the role of the state in the state-local expenditure pattern, and finally the existence of tax limits.

This analysis provides the following general results regarding tax limits.¹⁰

1. The existence of local tax limits is associated with a lower level of local per capita own-source expenditures than one would expect given the income, state and Federal aid, degree of urbanization, and expenditure centralization in the state. On average, limits are associated with a 6-8 percent reduction in local own-source per capita expenditures compared to what would otherwise be expected, all other factors held constant. These results are consistent with the

hypothesis that limits are effective in holding down local expenditures. However, they are also consistent with the hypothesis that the limits are simply representative of what the citizens desired with respect to local expenditures.

2. When a comparison is made of the three groups of states—those with no limits, those with rate limits, and those with levy limits—the finding that local governments in states with limits tend to have lower per capita public expenditures than otherwise expected is generally confirmed. There is, however, a more significant tendency for lower per capita local expenditures in the “rate limit” states compared to the “levy limit” states. Because most of the levy limit states enacted that type of limit very recently, this result should not be interpreted as a judgment of the impact of levy limits. Rather, this may simply suggest that this group of states had been experiencing a high level of local expenditures and thus found it necessary to adopt a new form of limit more suited to control their current fiscal environment.
3. The results show that per capita income is significantly related to the variation in per capita local expenditures for those states with limits, but not for those states without limits. That is, in states with limits, higher per capita incomes are associated with greater per capita local government own-source expenditures, other things being equal. A similar relationship does not hold for states without limits. One possible explanation for this different relationship of income to expenditures is that states whose local governments respond to increases in income by increasing expenditures are those states which are forced to institute limits in an effort to hold down local government expenditures. Conversely, those states in which local government expenditures are not sensitive to changes in income do not need to institute methods of holding down local expenditures. In any case, the evidence suggests that changes in per capita in-

come exert an influence increasing local per capita expenditures in those states with local tax limits.

In view of the foregoing results comparing limits and local expenditures, it seems natural to extend consideration to the relationship between limits and total state-local expenditures. For this purpose, a second expenditure hypothesis—that limits might be associated with lower total state-local expenditures—was examined, employing the regression technique.

To test this second hypothesis, the original expenditure regression equation was modified to substitute state-local expenditures for local own-source expenditures. Thus, per capita, state-local, own-source expenditures were assumed to be a linear function of per capita income, the degree of urbanization in the state, per capita Federal aid, total state population, and the existence of local tax limits. Again the analysis was performed using 1974 data.

The evidence suggests that local tax limits do not affect total state-local expenditures much. There is, however, a small tendency for lower per capita state-local expenditures in states with property tax *rate* limits than in other states, all other factors equal. In contrast, states with *levy* limits exhibit no tendency for lower per capita state-local expenditures than expected.

IMPACT OF LIMITS ON PROPERTY TAX USE

The existence of limits leads to the further question of whether, given some level of local expenditures, local governments in states with (property) tax limits rely less heavily on property taxes than local governments in states with no limits. The objective of this analysis is to see whether tax limits are associated with local tax diversification. For purposes of this analysis the percent of aggregate local own-source revenue attributable to the property tax is used as the measure of property tax reliance.

Clearly, the mix of local own-source revenues depends on variables other than the existence of property tax limits. For example, in this analysis the additional variables include existence of legal authority for local sales or income taxes,

interstate variation in per capita incomes, variation in per capita state aid, and differences in the degree of revenue centralization in the states.¹¹

Again, several general results concerning this relationship of tax limits and local property tax reliance follow from the analysis.

1. When states with any type of limit and those with none are compared, there is not a strong tendency for a lower percentage of local own-source revenue to come from the property tax in states with limits than in states with no limits. There is, however, a small tendency for the property tax to play a less important role in financing local expenditures in those states with property tax *rate* limits compared to those with no limits or *levy* limits. On net, the evidence suggests that the share of property taxes in local own-source revenue is not greatly affected by the existence of local tax limits.
2. The analysis indicates that variation between states in relative local use of the property tax depends most on the state's role in revenue generation and on the legal availability of either a local sales or income tax. It appears that when states collect a larger share of state-local own-source revenue, local property taxes tend to be lower. In addition, the legal availability of either a local sales or income tax suggests a lower relative utilization of the property tax by local governments.

PROPERTY TAX BURDENS

The tests of the relationship between tax limits and expenditures and property tax reliance can be used to suggest a relationship between limits and property tax burdens. Because the statistical analysis suggests that local governments constrained by limits tend to have lower per capita expenditures, other factors equal, but do not tend to make any significantly different relative use of the property tax, one would expect that *local property tax burdens* would tend to be lower in states with limits. This would occur simply because they tend to

have lower expenditures financed with the same or a slightly lower property tax share. Indeed, the analysis shows a correlation between the existence of property tax limits and local property tax revenue per \$1,000 personal income of -.20. Thus, there is reason to believe that, generally, property tax bills and property tax burdens tend to be lower than otherwise expected in local governments affected by state-imposed tax limits, all other factors constant.

A CAUTIONARY NOTE ON CAUSATION

Although these tests show a significant tendency for lower per capita local expenditures than otherwise expected in those states with limits, one must be cautious about claiming that limits "caused" the lower expenditures. Rather, it may be that those states whose residents have preferences for lower local expenditure levels are simply the states that choose to enact limits. In that case, the evidence simply implies that the limit was a form of "self-fulfilling prophecy."

LIMITS AND PROPERTY TAX ASSESSMENT COMPLIANCE WITH LAW

Another off-suggested impact of property tax limits, particularly those types of limits that fix property tax rates, is that limits introduce an incentive to assess property at a level closer to the state-imposed statutory assessment standard or to full value. Although the other factors affecting assessment ratios are too complex and uncertain for regression analysis on this issue, a simple comparison of compliance with the state assessment standard and the existence of limits is helpful. In *Table 2* a comparison of limit type and assessment ratio compliance with state law is shown.

Among states with no limits, there is a slightly higher than average number with poor assessment compliance and, among those states with levy limits, a slightly lower than average number. One might expect rate limits to create the strongest incentive for assessment compliance because, once the rate is at the limit, tax increases can occur only from assessment increases. However, among those states with rate

limits, there is no evident, above average, compliance with the state standard. Of course, this type of analysis is less comprehensive than regression analysis because it does not consider other factors that vary between states and affect assessment compliance.

LIMITS AND SPECIAL DISTRICT RELIANCE

It has been suggested that localities might make more use of special districts as a way of escaping from the impact of a restrictive tax or spending limit. On the basis of 1972 data, the comparison of states' use of special districts with the type of limit yields ambiguous results, especially when one considers the variety of factors other than limits which affect special district use. Yet, *Table 3* shows that among the 12 states with no limits in 1972, none was rated as having high reliance on special districts.

Table 2

ASSESSMENT COMPLIANCE WITH STATE LAW¹ 1972

	High	Medium	Low
Levy	1 (25%)	1 (25%)	2 (50%)
Rate	6 (18%)	6 (18%)	22 (65%)
None	1 (8%)	1 (8%)	10 (84%)
Total States	8 (16%)	8 (16%)	34 (68%)

¹Low compliance is arbitrarily defined as an actual assessment level that is less than 70 percent of the assessment ratio specified by state law. Medium compliance is 70 percent but less than 80 percent compliance. High compliance is 80 percent or greater.

SOURCE: ACIR staff compilation.

Table 3

**USE OF SPECIAL DISTRICTS¹
1972**

	High	Medium	Low
Levy	1 (25%)	3 (75%)	0
Rate	4 (12%)	18 (54%)	11 (33%)
None	0	9 (75%)	3 (25%)
Total States	5 (10%)	30 (61%)	14 (29%)

Note: Alaska is excluded, special district data not available.

¹Measure is expenditures of special districts as a percent of total state-local expenditures, fiscal year 1972. "High," "Medium," and "Low" use arbitrarily set as follows.

High = above 8.1 percent

Medium = 2.1-8.0 percent

Low = 0-2.0 percent.

Source: Bureau of Census, *1972 Census of Governments Finances of Special Districts*, Vol. 4, No. 2 (Washington, D.C.: U.S. Government Printing Office), 1972, table 13.

**COMPARISON WITH THE
1962 ACIR REPORT**

Among a large number of findings in an ACIR study of local tax limits in 1962, three are of interest for comparison with our current work. In its 1962 study, *State Constitutional and Statutory Restrictions on Local Taxing Powers*, the Commission reported:

1. "Although it is not feasible to isolate the effect of tax limitations from the numerous other influences which were at work, recent property tax revenue trends suggest that the long-run effect of the limitations has not been substantial." The study was referring to both property tax levies and the relative

position of the property tax in the overall state-local revenue picture.

2. In a survey of state officials, 20 of 32 states answering reported that "rate limitations materially affected the ability of local governments to finance public services."
3. Tax limits were reported as having "stimulated the creation of special districts for the primary purpose of gaining additional taxing authority. . . ."

Although these three specific results are interesting, they do not reflect totally the conclusion of that study. In general, the analysis was interpreted as showing that limits are not effective in achieving their goals partly because they induce numerous actions designed to circumvent the limits. The current study and the earlier study agree that property tax limits are not greatly effective in encouraging local revenue diversification. Also, the findings on special district use are not inconsistent.

These two studies differ substantially, however, regarding the impact of tax limits on expenditures and property tax burdens. The 1962 study suggested only that limits constrain local government public service provision through administrative problems and that limits do not affect property tax burdens. In contrast, the current study finds that limits are associated with lower expenditures and lower property tax burdens than otherwise expected.

FOOTNOTES

⁸Officials need not act explicitly in this manner for the model to be applicable. Rather, policy decisions must only result as if the questions of revenue mix and expenditure level were considered independently.

⁹Some would argue that full disclosure laws should not be grouped with levy limits. But, full disclosure, like a levy limit, maximizes public pressure to stabilize the local property tax. Thus, this grouping seems appropriate for this purpose.

¹⁰Specific results are provided in *Appendix A*.

¹¹The rationale for these factors is set out in the appendix. Briefly, income is a measure of an alternative tax base, revenue centralization corrects for differences in the state fiscal role, while state aid is a measure of state-financed property tax relief programs.

Effect of Recently Enacted Limits

Since 1970, 14 states and the District of Columbia have adopted or substantially altered controls on local taxing and spending power. Although these new controls take various forms, conventional property tax rate limits have been avoided without exception. Rather, these states have, in a general sense, opted for more broadly based limits that concentrate on property tax levies or all tax revenues. In some cases, these controls operate in addition to statutory tax rate limits while in others these new controls substitute for prior limit laws. It is appropriate, therefore, to consider the rationale, form, and impact of this recent wave of state-imposed limits on local taxes.

While the rationale for recent changes in state limitations on local taxing power varies somewhat from state to state, several themes seem to recur. For example, commenting on the Kansas "tax lid" enacted in 1970, Governor Docking noted,

Although the tax lid has been highly successful in keeping in check the rise in local property taxes, thus offering some protection to the overburdened taxpayer, it has also provided the tools for cities to receive needed financial aid through local (sales) taxes

enacted with the approval of the voters.¹²

More recently, Wisconsin Revenue Secretary David Adamany argued that,

... as long as the state devotes most of its resources to local assistance and tax relief, the levy limit program is a necessary means of assuring that state dollars are well spent.¹³

Thus, it appears that a concern with property tax burdens and growth in local government expenditures, especially in the context of the overall state-local fiscal relationship, has generated these recent changes. The basic problems from the state's viewpoint are these: (1) without property tax limits, state attempts to reduce property tax burdens with increased state aid can be ineffectual over the long term; (2) without property tax limits, options for new local taxes might lead to increased local government growth rather than property tax relief; (3) in the special case of schools, tax or expenditure limits are a necessary companion to state aid for education tied, in some fixed manner, to local taxes or school expenditures. Moreover, limits may be used to restrain spending by wealthier school districts in order to avoid aggravating disparities in local educational spending. In general, in all those states which have recently acted in this area, local tax controls are considered in concert with the local revenue diversification and state financial aid issues.

LEVY LIMITS

It seems valuable here to present a general review of recently adopted limits. Basically, there are two types closely related. Eight states have adopted a form of levy control which establishes a limit on the annual growth of property tax levies above which voter approval is required. New states in this group are California, Indiana, Iowa, Kansas, Minnesota, Ohio, Washington, and Wisconsin. They join three states—Arizona, Colorado, and Oregon—which had levy limits prior to 1970. Several variants of the levy limit are used. In Kansas and some Indiana counties (those without a local option income tax), property tax rates are frozen, there-

by limiting the growth in levies to the growth in assessed valuation. In Minnesota and Washington, levies are limited to an annual 6 percent increase. In California, local jurisdictions have limit options; property tax rates are frozen (limiting the growth in property tax levies to increases in valuation) or levies are limited to the prior year's level adjusted by the rate of population change and inflation. In Iowa, levies are limited to a 9 percent increase for 1977 and 7 percent for the following two years. Wisconsin restricts levy increases to the percentage increase in statewide equalized value, again with some adjustments.

In Ohio, control takes the form of a credit on real property tax bills. The credit is calculated on the basis of the percentage that the current year levy would have to be reduced so that, in the aggregate, the same revenue is raised as in the previous year. However, improvements to property, levies below ten mills, charter city levies, and taxes levied annually to raise a specific amount of revenue are excluded from the calculation. Thus, property tax levies are frozen subject to the above exclusions and any increases approved by the voters.

FULL DISCLOSURE LAWS

An alternative new tax control may be termed the full disclosure law. This type of control requires that the state or assessor establish a property tax rate which when applied to a percentage of the tax base (95-100%) will produce revenue equal to the prior year's property tax levy. This established rate can be exceeded only by explicit vote of the local governing board after a public notification and hearing procedure on any proposed increase. Jurisdictions which have adopted the full disclosure procedure and the year of adoption are Florida (1971), Hawaii (1976), Montana (1974), Virginia (1976), and the District of Columbia (1975). It should be noted that these laws are also property tax levy constraints, at least to some degree. The distinction between levy limits and full disclosure laws is the method provided for exceeding the limit. In the case of levy limits, the voters must usually approve any property tax levy greater than that allowed by the limit while with the full disclosure procedure the final judgement to exceed the established millage rests with the local governing body. Under full disclosure, when assess-

ments rise, property tax rates are automatically reduced pending action by the local representatives. Assessors are less likely, therefore, to be held responsible for tax increases.

Two recent local limit laws do not fall into either of the above categories. Alaska adopted a limit expressed as allowable revenues per capita or allowable revenues as a percentage of state per capita assessment. The limit was designed to control uneven regional valuation growth from oil development. More importantly, New Jersey enacted a law in 1976, to take effect in tax year 1977, under which municipalities are limited to a 5 percent annual increase in "final appropriations." Although revenue gains from new construction, expenditures for debt service, and expenditures mandated by state or Federal law are excluded, this expenditure limit is the most comprehensive state fiscal control on local government.

The new control laws demonstrate the necessity to consider their impact in conjunction with the overall state-local fiscal structure. Limits were introduced too recently to have demonstrated any significant impact to date in such states as Alaska (1/74), Florida (7/74), Iowa (7/76), Montana (3/74), District of Columbia (7/74), Hawaii (1/77), New Jersey (1/77), Ohio (6/76), and Virginia (1/76). In such States as California, Indiana, Kansas, Minnesota, Washington, and Wisconsin the limits have been in effect long enough to warrant a descriptive overview of their impact.

CASE STUDIES

California

The basic limit on counties, cities, and special districts, adopted in 1972 and modified in 1973, is the frozen property tax rate for either fiscal 1972 or 1973, whichever is highest. With the rate frozen, levies can increase only from assessed value increases. Beginning with fiscal 1974, localities can choose an alternative limit; namely, the property tax revenue of the prior year increased for population growth and inflation. Exclusions from the limit are allowed to cover costs required to comply with Federal laws or court orders and cost increases generated by boundary changes, a transfer of services, emergencies, and other factors. A new limit can be approved by majority vote of the local

electorate. Concurrently, with adoption of these new limits, the state agreed to reimburse local governments for costs required to comply with state laws and administrative regulations promulgated after January 1973, and for property tax and sales tax revenue losses due to new exemptions. In addition, California also expanded its state property tax relief programs in 1974. School districts in California are now limited to a 6 percent annual increase in total revenue for general purposes. Beginning in 1974, the state introduced new equalization aid for school districts and other financial aid for education.

Since the California limit was introduced, the annual increases in property tax revenue have been smaller than in the immediate prelimit period. From 1966 through 1972, property tax levies increased an average of 12 percent annually. Beginning with fiscal year 1973, direct property tax levies (those not including property tax reimbursement or relief payments from the state) have increased by 7 percent, -3 percent, and 11 percent annually; total property tax levies by 8 percent, 5 percent, and 11 percent. Although there was a decline in direct property tax levies in fiscal 1974, this was undoubtedly stimulated in large part by an infusion of over \$450 million in new state school district equalization aid. In fact, school districts have been subjected to the most stringent limit but have also been the beneficiaries of the largest increase in state aid. The California limits allow for property tax levies to increase either by the inflation-population adjustment or by the growth in assessed value. Assessed value, statewide, rose by 10.4 percent for 1975 and 11.3 percent for 1976.¹⁴

Indiana

Indiana is an example of a state that used property tax limits to promote increased local use of other revenue sources. Beginning with fiscal year 1974, counties have had the opportunity to adopt a local income tax. In those counties that adopt the local income tax, all units of local government are limited to the property tax levy in 1973. Thus, all future revenue increases must come from non-property tax sources, particularly the new income tax. In counties that do not adopt an income tax, all units of local government are limited to the

property tax rate in 1973. In effect, this limits increases in property tax levies to increases in assessed value. All school districts were limited to the 1973 property tax levy adjusted for increases in students. Applications for relief from the limits can be made to state review boards.

By 1976, 38 of Indiana's 92 counties had adopted a local option income tax: 17 at 0.5 percent rate, one at 0.75 percent, and 20 at 1 percent. During the first year of the limit, about 5 percent of the local governments applied to the state tax board requesting final revenue authority greater than the limit allowed. Census data show that in fiscal 1974, property taxes increased by only 0.2 percent despite annual increases of about 8 percent in the two previous years.¹⁵

Kansas

Kansas adopted its new tax limit system in 1970 and amended it in 1973. Beginning in 1970, all cities, counties, and community junior college districts were limited to the property tax levied in either 1968 or 1969. Increased property tax revenues from growth due to new improvements on real estate and added personal property are allowed. There are numerous exemptions from the lid, including debt service costs, and pension or retirement payments. The general lid may be exceeded when approved by the voters or by approval of the state board of tax appeals. Simultaneously with adoption of the tax lid, a statute was enacted allowing local governments to levy a sales or use tax if approved by the local voters.

The annual percentage increases in local property tax revenue in Kansas since enactment of the tax lid are shown below.

Fiscal Year	Percent Increase in Property Taxes
1970-1971	4.3%
1971-1972	7.1
1972-1973	10.3
1973-1974	5.0

The average annual increase for these four years is about 6.7 percent, slightly more than half the 11-12 percent rate of increase reported for 1966 through 1968. Also, three cities—Topeka, Manhattan, and Lawrence—adopted a sales tax at 0.5 percent in 1970. In 1973, the local sales tax

authorization was amended to specify counties as the adopting jurisdiction. Currently, four counties levy a local sales tax in addition to the three cities noted above.

Fiscal home rule still has its strong advocates in Kansas as illustrated by the following editorial by E. A. Mosher in the *Kansas Government Journal* of November 1976.

... The whole idea of the state-imposed property tax lid is inconsistent with the theory of local determination of local affairs by locally elected officials. But the tax lid is here, and is politically popular, especially by those who don't really understand it. It could be modified, however, by permitting at least some local decision making by locally elected governing bodies. Under this proposal, the state-imposed property tax lid would continue unless it is modified by local action similar to a city charter ordinance or a county charter resolution. The local governing body could remove the lid entirely, increase the total amount, exempt certain functions or increase the amount for a specified purpose. Following publication of the ordinance or resolution, voter approval could be required upon the filing of a citizen petition.

This home rule approach to local fiscal affairs seems politically practicable from a legislative viewpoint. The buck is shifted to local units; ... the lid is not changed by the legislature.

Minnesota

The tax limit on counties and municipalities was introduced in fiscal 1972 and revised in 1973 and 1974 to reduce the number of jurisdictions affected by the limit. Currently, jurisdictions with population over 2,500 are limited to a 6 percent annual increase in their per capita property tax levy, with several allowable adjustments and exclusions. Since statutory rate limits for general and specific purposes also remain, the most stringent control applies in each case. The limits may be exceeded with voter approval. At the same time the tax limit

was adopted, Minnesota greatly increased state aid, especially to school districts. In addition, the state homestead credit was increased in 1973 from 35 percent of the property tax bill to 45 percent (with the maximum allowable credit raised from \$250 to \$325). Further, the state circuit-breaker was extended to all taxpayers and liberalized for the elderly in 1975 to become effective in 1976.

Net property tax levies (excluding levies reimbursed by the state) changed by -7.0 percent in fiscal 1972, by 2.7 percent in 1973, and by 3.5 percent in 1974. This contrasts with an average annual increase of about 10 percent in property tax levies from 1967 to 1971. When total property tax levies are examined, including levies reimbursed by the state, the increases are larger. For example, total levies increased by 3.0 percent in 1973. The Citizens League reported that the 1974 rise in total property tax levies of cities and counties was about 9.0 percent and attributed the break in the limit to the several exemptions from its provisions.¹⁶

Washington

There has been some type of state-imposed property tax limit in Washington since 1932, and today there are several controls in use simultaneously. Total property tax levies of all units of government taken together are limited to \$9.15 per \$1,000 assessed value. Also, each level of government has rate limits within this aggregate limit. In addition, property tax levies for each level of local government are limited to 106 percent of the highest levy of the prior three years. A new base for the levy limit is established if a property tax levy greater than the 106 percent limit is approved by majority vote.

The Washington Department of Revenue reports the impact of the 106 percent limit on property tax levies as the difference between levies that would be obtained at the maximum statutory rates and actual levies. Thus, they report that levies would have been \$16.5 million more in 1974, \$7.0 million more in 1975, and \$11.4 million more in 1976 without the 106 percent limitation. In addition, since the 106 percent limit went into effect in 1974, total property tax levies increased by 12.5 percent in 1975 and fell by 9.7 percent in 1976. The decrease in absolute property tax levies in 1976 is attributed to the failure of local school proposi-

tions at referenda. In contrast, property tax levies of cities, counties, and special districts rose only by 1.1 percent in 1975, while property tax rates fell in 43 of the 50 largest Washington cities in 1976. Since the 106 percent limitation does not apply to schools, only 35 percent or 40 percent of the total property tax levies in Washington are affected by this new limit.¹⁷

Wisconsin

A new local tax control was enacted in Wisconsin in 1973 and amended and adopted on a permanent basis in 1975. The new control limits the percentage increase in the property tax levy of a county or municipality to the percentage increase in equalized full value of all property in the state. The Department of Revenue may adjust a jurisdiction's levy limit to account for increased costs or reduced revenues from population growth greater than the state average, assumption of new expenditure functions, and other factors. As usual, a jurisdiction can exceed the limit with local voter approval. As with several other states, changes were made in the state-local fiscal relationship in Wisconsin in conjunction with introduction of the new limit. A major new state revenue sharing program was introduced in 1971, while in 1973 the state took over financial responsibility for several functions previously financed by counties. By fiscal 1974, nearly 67 percent of state-local tax revenue was collected by the state, while 77 percent of state-local expenditures took place at the local level.

As a result of these changes, local property tax levies in Wisconsin increased by only 2.0 percent in 1973 and fell by 0.3 percent in 1974.¹⁸ Although 1975 property tax collections increased by 10.5 percent, this was still less than the increase in statewide equalized value (13.2%). The Wisconsin Department of Revenue reports a 9.5 percent increase in municipal and county property tax levies to be collected in 1976, only about half the increase allowed by the levy limit. However, about 25 percent of these municipalities and counties levied property taxes within 1 percent of their maximum. Thus, Revenue Secretary Adamany noted that "We believe there is little doubt that taxes would have been higher in many of these communities in the absence of levy limits."¹⁹ In contrast, the Citizen's Governmental Research Bureau re-

ported that the levy limits did not hold down property taxes in Milwaukee suburbs. Apparently, additional property taxes were required to adjust for decreases in state-shared taxes for 1976 due to a change in the distribution formula. Thus, in these suburbs, property taxes reportedly increased by an average of 18.6 percent in 1976.²⁰

LIMITS AND SCHOOL FINANCE

The earlier discussion in this section focuses primarily on property tax controls on general local governments, but school districts have likewise had limits placed on their access to additional property tax revenue. State controls on school district tax and spending authority have been described in detail by D. Cattanaach, R. Lang, and Kansas State Senator Joseph Harder

in an article titled "Tax and Expenditure Controls: The Price of School Finance Reform" and published by the National Conference of State Legislatures in its book *School Finance Reform: A Legislator's Handbook*. The following paragraphs draw information from that article.

Recent court decisions have raised questions about the effectiveness of simple property tax rate limits in achieving the equalization of school expenditures or tax burdens between rich and poor school districts. The courts have said that because of the distribution of wealth, a system of simple tax rate limits which ensures that taxpayers have equal property tax rates will also guarantee unequal program levels. Tax limits effectively foreclose certain options for discretionary action on the part of the poorer school districts.

Fourteen states have enacted major school

Figure 4

BASIC FEATURES OF TAX AND EXPENDITURE CONTROLS ON LOCAL SCHOOL DISTRICTS IN 14 SCHOOL FINANCE REFORM STATES

State	Type of Control	Range	Provisions for Waiver or Override	State	Type of Control	Range	Provisions for Waiver or Override
Arizona	Expenditure ³	7% + (74-75)	Override Referenda	Michigan	None		
California	Expenditure ³	15%(73-74)	Override	Minnesota	Tax Rate	30 Mills	Referenda
Colorado	Expenditure	7-12%	Budget Review Board	Montana	Expenditure	7% ²	Referenda
Florida	Tax Rate	6.3-8 Mills	Referenda	New Mexico	Tax Rate	8.92 Mills for All Districts	No
Illinois	None ⁴			North Dakota	Tax Rate	24 Mills	Override ⁵
Kansas	Expenditure	Up to 15%	Board of Tax Appeals	Utah	Tax Rate	38 Mills	No
Maine	Tax Rate	2.5 Mills Above Foundation Requirement	No	Wisconsin	Expenditure	\$55 ^{2,6}	Yes

¹Ruled unconstitutional in *Serrano* decision.

²Dropped after first year.

³State aid increase limited by economic growth.

⁴State aid increase to any district cannot exceed 25 percent.

⁵Applies only to districts above 4,000 population.

⁶Replaced by expenditure controls for 1975-1977 biennium.

SOURCE: Adapted from "Tax & Expenditure Controls: The Price of School Finance Reform," D. Cattanaach, R. Lang, L. Hooper and Senator Joseph Harder, in *School Finance Reform: A Legislators' Handbook*, edited by J. Callahan and W. Wilken, The National Conference of State Legislatures, (Washington, D.C.), February 1976.

Table 4

GENERAL FUND BUDGET PER PUPIL INCREASES

**Authorized by Kansas Statutes
Excluding Appeals and Declines**

1973-74		1974-75	
Percentage Increase Authorized	Number of Districts	Percentage Increase Authorized	Number of Districts
5%	179	7%	182
5% to 7½%	17	7% to 10%	18
7½% to 10%	18	10% to 15%	47
10% to 15%	29	15%	62
15%	66	Over 15%	0
Over 15%	1		
TOTAL	310	TOTAL	309

Table 5

**EXPENDITURE, WEALTH, AND STATE AID DATA
OF KANSAS SCHOOL DISTRICTS
BY WEALTH DECILE, 1973-74 AND 1974-75**

Wealth Decile	1973-74			1974-75		
	Wealth Per Pupil	General Fund Budget Per Pupil	State Aid Per Pupil	Wealth Per Pupil	General Fund Budget Per Pupil	State Aid Per Pupil
1	\$14,904	\$ 700	\$429	\$16,120	\$ 784	\$501
2	20,243	780	420	23,206	868	501
3	23,283	764	375	27,198	870	440
4	26,310	839	384	31,087	923	409
5	29,604	864	351	34,972	985	389
6	32,577	943	330	39,171	1,077	342
7	37,013	992	301	42,250	1,101	281
8	43,475	1,092	236	52,796	1,186	174
9	52,002	1,155	66	64,339	1,299	42
10	75,705	1,460	0	89,476	1,549	0

(Total Districts = 310)

SOURCE: NCSL computations from school finance data supplied by the Kansas Department of Education.

finance reform measures (Figure 4). State imposed expenditure controls on school district budgets are an integral part of the school finance reform movement in six of these 14 states—Arizona, California, Colorado, Kansas, Montana, and Wisconsin. Six other states—Florida, Maine, Minnesota, New Mexico, North Dakota, and Utah—still rely on property tax rate limits as an important element in their reform programs. Two states—Illinois and Michigan—have neither an expenditure lid nor a tax rate limit in their reform packages.

The intent of these new expenditure controls has been primarily to: (1) limit or reduce local property tax rates, (2) retard the growth of expenditures in fiscally advantaged school districts, and (3) minimize the number of new state dollars required to “level up” education expenditures in fiscally disadvantaged school districts. The expenditure lid is either expressed in terms of a maximum dollar amount per pupil or in terms of a fixed percentage increase in the annual operating budget of the districts affected. The tax limit is expressed in terms of a maximum property tax rate with the revenues produced tied in various manners to a state-defined foundation level of expenditures per pupil.

A case study of Kansas’ new school finance reform legislation illustrates the manner in which expenditure controls have been used. In 1973, the Kansas Legislature passed the *Kansas School District Equalization Act of 1973* which imposed expenditure controls on general operating expenditures. It provides that a school district can increase its maximum budget per pupil either (1) by no more than 105 percent of the median budget per pupil for school districts in its enrollment class, or (2) to the highest budget per pupil in another school district in its specific

enrollment class (upon the approval of the general electorate in the district); but, in neither case can the increase be in excess of 15 percent of the previous year’s per pupil expenditure. Alternatively, a school district may exceed the maximum budget per pupil by successfully appealing for a higher expenditure level to the state board of tax appeals. The Kansas approach to school finance seems to be relatively successful in achieving the first goal of limiting the increase in local property tax burdens. Increases in authorized general fund expenditures per pupil have been held to relatively small increments as shown in Table 4. The Kansas program, however, represented only a modest start on closing the expenditure gap between rich and poor school districts (Table 5).

FOOTNOTES

¹²*Governor’s Legislative Message and Budget Report* delivered by Governor Robert B. Docking to the Kansas legislature, January 11, 1973.

¹³Release of the Wisconsin Department of Revenue, David W. Adamany, secretary, February 10, 1976.

¹⁴*The Future of Property Tax Limits in California*, California Taxpayers Association (Sacramento, Calif.), January 1976.

¹⁵*Effects of Local Option Tax and Implementation of Property Tax Control on Local Government Finance in Indiana*, Indiana Legislative Council, Fiscal Analysis Division (Indianapolis, Ind.), April 1974.

¹⁶*Reducing Property Tax Inequities Among Taxpayers and Cities*, Citizens League (Minneapolis, Minn.), March 1975.

¹⁷*Monthly Report*, Washington State Research Council (Olympia, Wash.), November 1974, September 1975, March 1976. Also from unpublished research, Washington Department of Revenue.

¹⁸These small increases may also show the effect of the beginning of Federal revenue sharing payments in late 1972.

¹⁹Wisconsin Department of Revenue, *op. cit.*

²⁰“Levy Limits Fail to Halt Increasing Property Taxes,” *Whitefish Bay Herald*, June 3, 1976.

Toward a Policy on Limits

The policy effect of tax and spending limits can range beyond the restraining influence they are intended to exert on the use of the local property tax.

Suppose, for example, that municipalities are limited to annual 6 percent increases in property tax levies without voter approval and have no authority to collect a local sales or income tax. Other revenue comes from intergovernmental aid and fees and charges only. Under these circumstances, current operating expenditures can increase only by 6 percent, adjusted for different percentage changes in aid and fees. If the role of inflation is greater than 6 percent annually, however, a 6 percent increase in expenditures would generally not be sufficient to maintain current program levels. Moreover, if local employees can win large salary increases in collective bargaining, then the limit may also force a cutback in some programs.

Any of these effects on expenditures might, of course, be altered to the extent that exclusions from the limit are allowed. The effect of the limit on property tax rates is equally hard to predict. If assessed value rose by less than 6 percent, then rates could rise. If assessed value rose by more than 6 percent, however, rates would have to fall to comply with the limit. Any of these outcomes would be altered if jurisdictions sub-

ject to tax or spending limits had an alternative local non-property tax source.

This litany of possible outcomes demonstrates that any limit on expenditures, property tax levies, property tax rates, and the use of other revenue sources depends on the specific structure of the local fiscal system. In addition, any limit applied uniformly to all local jurisdictions in a state is not likely to affect them uniformly. For these reasons, it is essential to see how several economic factors can interact with local tax limits and thereby affect the impact of those limits. Armed with this type of analysis it may be possible to draw inferences about the preferred type of limit for several alternative public policy goals.

LIMITS AND COLLECTIVE BARGAINING

Since limits are often intended to control local expenditures and since local expenditures are largely composed of labor costs, there is a direct relationship between tax limits and local collective bargaining. Concern focuses on two areas.

First, effective and broadbased tax limits that restrict the growth of local expenditures are likely to alter the relative bargaining strength of unions and local government, thereby changing the outcome of the bargaining process. When local expenditure increases are restricted by law, an upper bound is imposed on the response of local officials to union demands. In a political sense, one might say that a state-imposed limit which is effective in controlling expenditure growth requires a local politician to say "no" to union demands because of artificially constrained resource availability and, thus, to shift the "blame" to the state.

Second, if the restriction on local taxing or spending serves to induce more public awareness of the local budget process, as a full disclosure law is designed to do, then, it may affect local collective bargaining even though there is no limit on expenditures. Although the full disclosure process may not, in fact, restrict expenditures when other local taxes are available, this type of control forces a public discussion of a proposed property tax increase and, presumably, the reason for the budget request. If public employee wage or benefit increases are proposed at the same time as the tax increase, the public expresses its opinion on the cost

increase through the tax increase hearing procedure. It should be noted that this could take place even if the union contract was not the major reason for the proposed tax hike. Similarly, public reaction in the property tax hearing process may not affect the contract negotiations but rather might induce increases in other, non-property tax revenue sources.

INTERACTION OF INFLATION AND LIMITS

Recent experience with high rates of inflation and the possibility that they might reappear suggest the need to examine how large price increases can affect policy about limits. With respect to inflation's relationship to local tax and expenditure limits, concern focuses on two areas: (1) the impact of a general price inflation on real expenditures controlled by levy limits or expenditure lids, and (2) the impact of inflation on property values and as a consequence on revenues and expenditures when tax rate limits apply.

When there is a general inflation, the prices that government must pay for the goods and services it purchases also increase. Therefore, limits that directly control expenditures and those that indirectly restrict expenditures must be evaluated in terms of their impact on real government expenditures and current program levels.²¹ Limits that constrain annual expenditure growth to a maximum percentage will have different effects in various years depending upon differences in the rate of inflation. Also, since inflation can affect the costs of local governments differentially, any limit applied to all types of local governments should be expected to have different effects in each jurisdiction.

Provision can be made in legislation imposing expenditure lids and property tax levy limits to include adjustments to account for inflation. Such a provision, however, raises the question of whether local governments should be made totally immune from the effects of inflation. Other sectors of the economy often cannot maintain a constant real position in the face of severe inflation. Although the effects of inflation on expenditure and tax limits warrant recognition, the degree to which limits should be adjusted to shield local government from inflation's impact is an open policy issue.²²

When property tax rates are frozen, levies can

increase no more than assessed values increase. In a general inflation, assessed values can increase, even without new construction, due to the rise in value of existing property. This rise in property value may appear on assessment roles only after some lag. Thus, a *rate freeze* may allow a 10 percent increase in levies (when assessed value rises by 10%) while a seemingly less restrictive *levy limit* may allow only a 6 percent increase. Local governments in California can choose between alternative limits to increase their maximum revenue and mitigate the effects of inflation. Local governments can select the base year tax rate and allow levies to increase along with assessed value. Alternatively, they can collect the previous year's *levy* adjusted upward by the rate of inflation and population growth. Thus a local government can select the first procedure when the assessed value increase is greater than the combination of inflation and population growth, and *vice versa*.²³

LIMITS IN A SYSTEM OF PROPERTY TAX RELIEF

Limits also interact with state fiscal policies designed, at least in part, to provide property tax relief. One issue is straightforward and can be quickly described. Property exemptions ordered and financed by the state can lose their relative value if local property tax rates are not controlled. Similarly, circuit-breaker type programs in which the state, in effect, pays a share of some taxpayers' property tax bills can become unexpectedly expensive if property tax levies are not controlled. (Many state circuit-breaker plans limit the amount of tax that can be claimed or the amount of the allowable credit which means that eventually the state contribution will reach a maximum and thus the relief will become smaller in relative terms.)

A second and more complex problem arises with regard to state financial aid to local governments. For example, general revenue sharing type grants are sometimes allocated according to local tax effort (local taxes as a percentage of local personal income). Local tax or expenditure limits set a bound on how much local governments can increase tax effort, thereby preventing changes in tax effort that the grant program may have been designed to bring about. State aid for primary and secondary education often is

distributed on the basis of either assessed value per pupil or a fixed share of education expenditures (at least up to a maximum).²⁴ When a state has a commitment to finance a given share of education expenditures, it has a direct reason for limiting the growth of expenditures. Where education aid is tied to assessed value per pupil, limits can work against the goal of the aid program. As assessed value rises (perhaps from inflation), state aid can decline while, at the same time, the limit may prevent the school district or local government from capturing its enhanced revenue potential due to the increase in taxable value.

LIMITS AND MANDATED COSTS

State (and Federal) legislative and administrative actions interact with tax and spending limits to produce intergovernmental conflicts. Local officials contend that states reduce the fiscal flexibility of local governments severely on one hand, by restricting revenues through limits and, on the other, by mandating increases in costs. Several states—including California and New Jersey—have made specific allowances in their limit laws for state-mandated local cost increases. California reimburses local governments for certain cost increases generated by state law and administrative regulations. New Jersey excluded expenditures mandated by Federal or state law from its local expenditure limit law.

Some officials have suggested that allowance, and especially reimbursement, for mandated costs is the *quid pro quo* for state-imposed limits on local government. Local officials would find limits less restrictive if they were assured that expenditures required by state action will be financed by the state. Similarly, state legislators are likely to be more willing to provide financial assistance for mandated costs when local governments are under some general fiscal control. The mandating issue is a broad and complex one that will be the focus of a separate, future ACIR report.

EXPECTED DIFFERENTIAL IMPACTS OF LIMITS

The analysis and discussion from this and the previous sections of the report are summarized in Figure 5. For each of five limits, the major

Figure 5

SUMMARY CHARACTERIZATION OF LIMITS

Type of Limit	Override Authority	Limit Effects on				Inflation Impact
		Property Tax Rates	Property Tax Levies	Expenditures	Other Tax Use ¹	
Property tax rate limits—mills or dollars per \$100 assessed value.	Referendum.	Maximum set by the limit.	Uncontrolled when rate is below the limit. Can increase with assessed value when rate is at maximum.	If rate at limit, depends on assessed value growth and availability of other revenue sources.	Positive incentive created when rate at maximum and assessed value increases are small.	Inflation raises assessed value; important when rate at maximum.
Rate freeze—rate set at level in base year.	Referendum and state agency.	Explicitly fixed.	Can increase only from assessed value growth.	If supported only by property tax, limited to assessed value change plus change in fees and aid.	Strong incentive for use, especially when assessed value growth is small.	Important since all property tax increase from assessed value growth.
Full disclosure law—set rate for constant revenue.	Public hearing and voted approval of local governing board.	Rate established each year to raise same (or slightly increased) revenue as last year.	Without board approval, constant from year to year (or a small annual increase).	With public hearing on tax increase, expenditures also get public scrutiny.	Strong incentive for use since public hearing procedure not needed.	If hearing procedure prevents increases, then can induce fall in real expenditures.
Levy limit—restricts annual increase in levy.	Referendum and sometimes state agency.	Can increase or decrease depending on allowed levy change v. change in assessed value.	Frozen or limited to fixed annual increase.	If supported only by property tax, limited same as levy adjusted for aid and fees.	Strongest incentive for their use, particularly if levy frozen.	When inflation greater than allowed levy increase, fall in real property tax revenue.
Expenditure lid—control on appropriations or all revenues.	Referendum only.	If the property tax is used alone, then levies are as restricted as expenditures.		Explicitly controlled.	Movements between taxes within overall limit.	Inflation can mean cuts in current programs—fall in real expenditures.

¹When other taxes are available.

structural features are identified, the *a priori* effects on certain fiscal features are suggested and the interaction impact of several economic variables is noted. This framework allows a policymaker to select the limit technique most likely to achieve a given policy objective. It may, in addition, suggest the elements for new types of tax and expenditure control.

FOOTNOTES

²¹If nominal expenditures are limited to some fixed annual increase, then real expenditures will be limited to a fraction

of that increase depending on the rate of inflation. Because, in practice, expenditure lids are most often applied to school districts, one might want to know the impact of inflation on education costs compared to total government services.

²²There is also the substantial problem of selecting the appropriate statistic to measure inflation's impact on state and local government.

²³For a detailed study of the situation in California see *The Future of Property Tax Limits in California*, Research Bulletin; California Taxpayers Association (Sacramento, Calif.), January 1976.

²⁴In Florida, for example, school districts have both a minimum and maximum expenditure per pupil unit. Expenditures outside this range result in state aid losses.

Data Sources, Definitions, and Empirical Results

The definitions and sources of the data for the analysis in this report are as follows:

1. **Local Expenditures.** Total general expenditures made by local governments as defined by the Bureau of the Census (*Governmental Finances*, 1973-4, Table 18).

2. **Local Property Taxes as a Percent of Total Own-Source Local Revenue.** Total local property tax revenue divided by total local general revenue from own sources as calculated by the Bureau of the Census (*Governmental Finances*, 1973-4, Table 17, column 6 divided by column 4).

3. **Property Tax Burden.** Property tax revenue expressed as dollars per \$1,000 of state personal income (*Governmental Finances*, 1973-4, Table 24).

4. **Rate Limits.** Binary variable used to identify those states which have property tax rate limits; 1 = rate limit present, 0 = other (Commerce Clearing House, *State Tax Reporter*).

5. **Levy Limits.** Binary variable used to identify those states which have some form of property tax levy limit; 1 = levy limit, 0 = otherwise

(Commerce Clearing House, *State Tax Reporter*).

6. Revenue Centralization. An index number computed by dividing the percent of total state-local general revenue originating at the state level by the percent of total state-local general revenue originating at the local level. A value of 100 indicates that each level of government (state and local) provides an equal percentage of non-Federally funded total state-local general revenue (*Governmental Finances, 1973-4, Table 23, column 6 divided by column 7*).

7. Expenditure Centralization. An index number computed by dividing the percent of total state-local direct general expenditures dispersed at the state level by the percent of total state-local direct general expenditures dispersed at the local level (*Governmental Finances, 1973-74, Table 25, column 11 divided by [1.00 minus column 11]*).

8. Population. Estimates as of July 1, 1974, as defined and calculated by the Bureau of the Census (*Governmental Finances, 1973-4, Table 26*).

9. Income. Personal income for calendar year 1973 as defined and calculated by the Bureau of the Census (*Governmental Finances, 1973-4, Table 26*).

10. Percent Urban. Percent of population living in urban areas in 1970 (*U.S. Statistical Abstract, 1974*).

11. State Aid to Localities. State moneys advanced to local government including (a) grants-in-aid, (b) shared revenues, (c) in-lieu-of-tax payments, (d) reimbursements for government services, and (e) amounts originating with the Federal government but channeled through the state government for distribution to local governments (*Governmental Finances, 1973-4, Table 17*).

12. Federal Aid to Localities. Federal moneys advanced to local governments including (a) grants-in-aid, (b) shared revenue, (c) in-lieu-of-tax payments, and (d) reimbursements for government services (*Governmental Finances, 1973-4, Table 17*).

13. Alternative Taxes. Binary variable indicating whether or not the local governments in each state have available to them a local general sales or income tax in addition to the local property tax; 1 = sales and/or income tax available for local government use, 0 = otherwise (*Significant Features of Fiscal Federalism, 1976 Edition, forthcoming*).

For the statistical analysis performed, local government expenditures, personal income, and state and Federal aid to localities were each expressed in per capita terms. To generate the dependent variable—per capita own-source local expenditures—state and Federal per capita local aid figures were subtracted from per capita total local expenditures.

THE STATISTICAL ANALYSIS

State-imposed property tax limits have been an established feature of our intergovernmental fiscal system for over a century. In the last five years, however, there has been a resurgence of interest in the state control of local taxing and spending powers. To provide a more informed basis for public debate on tax and spending limits, an attempt is made here to determine the extent to which existing limits affect local governments' fiscal decision-making process.

The local budget process is assumed to consist of two independent decision procedures. Officials must select the level of expenditures and they must determine the mix of revenue sources to be used in financing the specified expenditures.¹ Once the level of expenditures and the revenue mix are determined for any jurisdiction the property tax burden is also specified. Two hypotheses are tested initially: (1) that limits hold down local government expenditures and (2) that limits encourage revenue diversification by restricting the local government's use of the property tax as a revenue source. Results of the test of these hypotheses provide the basis for comments on the effectiveness of limits in holding down local property tax burdens.

In considering the effect of limits on local expenditures and on local governments' relative use of the property tax, one must recognize that the values of the numerous other factors which affect these fiscal variables vary between states. In order to assess the "true" effect of tax limits

on expenditures and relative property tax use, it is necessary to correct for differences between states in these other factors. The technique of multiple regression analysis is used to hold statistically constant other factors affecting local expenditures and relative property tax use so that the impact due to limits alone can be isolated and identified.

For this analysis, data were collected for fiscal 1974. The analysis is a snapshot of differences among 50 states rather than a moving picture demonstrating differences in the same state over a period of time. The cross-section nature of the analysis presents some problems, mainly of interpretation. First, states in the same group have used the limit existing in 1974 for different lengths of time. Secondly, this analysis does not offer explicit evidence of the dynamic response of fiscal variables to limits. Such a test would require a time series examination of the effect of a limit in a particular state. These statistical tests indicate the *general overall* association between tax limits and local expenditures, revenue diversification, and property tax burdens.

LIMITS AND LOCAL GOVERNMENT EXPENDITURES

The first hypothesis tested is that localities in states with a state-imposed limit on their taxing and spending power have lower per capita own-source expenditures than would be otherwise expected, i.e., limits are effective in holding down local government expenditures.

Drawing on a well established literature,² it is assumed that local own-source per capita expenditures are a function of the resources available to the local government, the cost of providing services, differences in preferences for public services, the allocation of functional responsibility between state and local governments and, in this case, the existence of a limit. As a proxy for resource availability, the model includes traditional variables such as per capita state income, per capita Federal aid to localities, and per capita state aid to localities. Per capita income also serves as a proxy for differences in preferences for public services. As a proxy for the differential costs of providing services, the percent of each state's population living in urban areas is included as an independent variable. To allow for differences in the assignment of func-

tional responsibility between state and local levels of government, a measure of expenditure centralization is included as an independent variable. An index is constructed where the share of total state and local expenditures financed at the state level is divided by the share financed at the local level. Thus, an index number of 100 indicates that the state and the local government finance equal shares of total state-local expenditures.

It is assumed initially that the impact of a limit on the level of local government expenditures is the result of two forces. First, it is assumed that, other influences held constant, states with a limit and states without a limit represent two separate universes where the former is expected to have lower per capita local expenditures. Therefore, a dummy variable (having a value of one if there is some type of state-imposed limit, zero otherwise) is included and merely indicates the existence or non-existence of a limit. Second, and potentially more important, it is assumed that the existence of a limit affects the level of local government expenditures because the limit provides an institutional constraint on the income elasticity of local expenditures. The reasoning behind this second assumption is as follows:

Assume there are two identical local jurisdictions which finance their local expenditures entirely from property tax revenues. One is located in a state with a limit and the other in a state without a limit. As income increases, the demand for local services presumably increases. The local government in the state with no limit is able to increase its expenditures (and taxes) sufficiently to meet the higher demand. To the extent that the locality in the state with a limit approaches the point where the state-imposed constraint becomes binding, the local officials will be frustrated in their attempts to meet the higher demand for local services. In effect, the locality in the state with the limit is characterized by a lower income elasticity than might otherwise be expected. To test this component of the hypothesis, an interactive variable is constructed by multiplying per capita income for each state by the dummy variable indicating the existence or non-existence of a limit.³

The final specification of the expenditure equation is thus given as:

$$Y = F (I, SA, FA, URBAN, CENT, LIMIT, LI)$$

where

Y=per capita local own-source expenditures (total local expenditures less intergovernmental aid) in each state.

I=per capita income in the state.

SA=per capita state aid to localities within each state.

FA=per capita Federal aid to localities in each state.

URBAN=the percent of a state's population living in areas classified by the Bureau of the Census as urban.

CENT=an index of expenditure centralization in each state.

LIMIT=a dummy variable indicating existence or non-existence of limits in each state.

LI=the interactive term (LIMIT multiplied by I).

Simple correlation coefficients for these variables are shown in *Table A-1*.

The hypothesis is that income and urbanization have positive first derivatives; expenditure centralization, LIMIT, and LI have negative first derivatives; the first derivatives for state aid and Federal aid are uncertain because the literature gives mixed views as to whether aid is stimulative (in which case the derivatives would be positive) or substitutive.

The empirical results of the multiple regression analysis are presented in *Table A-2*, equation 1. The results indicate that, in fact, limits do, on average, hold local government expenditures below the level that would be expected for those states in the absence of limits. The variable measuring the degree of expenditure centralization is significant and has the postulated negative sign indicating that the more dominant a role played by the state in providing public goods the smaller the local governments responsibilities. The variable measuring the percent of the states' population in urban areas was not significant at the 95 percent level of confidence. Nor are the state aid and the Federal aid variables significant, indicating that, consistent with some other studies, these variables do not

stimulate local government own-source expenditures.

Equation 1 revealed further that income is a significant variable in explaining variations in local government expenditures in states with limits, but not in states without limits. Two difficulties arise from this last result. First, contrary to all previous research findings, the result indicates that income is *not* a significant variable in explaining the level of local government expenditures in states without limits, i.e., the income elasticity of aggregate local expenditures in states without limits is implicitly zero. Second, the interactive variable is statistically significant indicating that (as postulated) the income elasticity of aggregate local expenditures in states with limits is different than the income elasticity in states without limits. However, the sign on the coefficient of the interactive variable is positive (while a negative sign was originally postulated) indicating that expenditures are more responsive to changes in income in states with limits than in states without limits. Because the dummy variable is significant with a large negative coefficient, the small positive sign on the coefficient of the interactive variable may reflect the situation where states have taken strong action by introducing limits in an effort to hold down local government expenditures, which are in fact very responsive to changes in income. The net effect of the limit thus depends on how large the increases in income are, e.g., from equation 1 the net effect of the limit on the expenditure level of local governments in each state is an average -445.48 plus .087 times the state's per capita income. In any case, aggregate local own-source expenditures would be below the level expected in the absence of limits.

It was estimated that, on average, per capita local own-source expenditures in states with limits would have been 6-8 percent higher without limits, all other factors constant. This 6-8 percent figure is based on the empirical results of equation 1. Omitting the dummy variable for limits and the interactive term, the coefficients were used to estimate the level of expenditures that would exist, given the values of the other variables.

Presumably, any difference between the actual and the estimated level of expenditure that exists in those states without limits (in which case the limit variable and the interactive varia-

Table A-1

MATRIX OF SIMPLE CORRELATION COEFFICIENTS

	Y	I	SA	FA	Urban	Exp. Cent.	Limit A	Limit Levy	Limit Rate	LI	Limit Times SA	Limit Times FA	Levy Limit Times Income	Rate Limit Times Income	Rev. Cont.	Other Taxes	PT as percent of Own Source Rev.
Y	1.000	.725	.423	.144	.499	-.368	-.038	.293	-.284	.151	NC	NC	NC	NC	-.697	.137	.256
I		1.000	.308	.147	.525	-.107	-.128	.168	-.256	.087	NC	NC	NC	NC	-.329	.046	.287
SA			1.000	.400	.196	-.357	.304	.357	-.038	.387	NC	NC	NC	NC	-.009	.375	-.245
FA				1.000	-.077	.101	.107	.158	-.042	.148	NC	NC	NC	NC	.188	.251	-.164
Urban					1.000	-.206	-.134	.147	-.243	-.046	NC	NC	NC	NC	-.292	.213	.057
Exp. Cent.						1.000	-.304	-.217	-.082	-.345	NC	NC	NC	NC	.668	-.362	.002
Limit A							1.000	.333	.593	.967	NC	NC	NC	NC	-.067	.375	-.336
Limit Levy								1.000	-.562	.387	NC	NC	NC	NC	-.218	.185	.057
Limit Rate									1.000	.517	NC	NC	NC	NC	.127	.171	-.344
LI										1.000	NC	NC	NC	NC	NC	.404	NC
LSA											1.000	NC	NC	NC	NC	NC	NC
LFA												1.000	NC	NC	NC	NC	NC
LBI													1.000	NC	NC	NC	NC
LCI														1.000	NC	NC	NC
Rev. Cent.															1.000	-.113	-.322
Other Taxes																1.000	-.524
PT as percent																	1.000

NC—Not computed.

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Table A-2

**LIMIT EFFECT ON LOCAL GOVERNMENT EXPENDITURES:
REGRESSION RESULTS WHEN THE DEPENDENT VARIABLE
IS PER CAPITA OWN-SOURCE LOCAL EXPENDITURES¹**

Variable	Equation Constant	Expenditure Central-ization	Per Cent Urban	Per Capita Income	Per Capita State Aid	Per Capita Federal Aid	Dummy A No Limit	Dummy B Levy Limit	Dummy C Rate Limit	Dummy A Times Income	Dummy A Times State Aid	Dummy A Times Federal Aid	Dummy B Times Income	Dummy C Times Income	R ² (F Value)
1	139.55	-0.445** (-2.21)	1.389*** (1.85)	0.016 (0.55)	0.148 (1.10)	0.422 (0.49)	-445.48* (-2.93)			0.087* (2.83)					.835 (13.88)
2	146.15	-0.469** (-2.25)	1.388*** (1.79)	0.017 (0.59)	0.113 (0.80)	0.286 (0.32)	-564.44*** (-1.89)	-416.49** (-2.66)					0.114*** (1.90)	0.080** (2.50)	.839 (10.64)

t-values in parentheses except in the last column.

*Significant at the 99 percent level of confidence.

**Significant at the 95 percent level of confidence.

***Significant at the 90 percent level of confidence.

ble had values of zero) results from the model's inherent estimation error. However, for the states with limits, the difference between the actual (Y) and estimated (\hat{Y}) level of expenditures (where \hat{Y} is greater than Y) is due to the model and because the influence of limits is omitted. By computing the average percent error for states without limits and subtracting it from the average percent error for states with limits, the percent error (difference between Y and \hat{Y}) due to the effect of limits remains. Expressing this in dollar terms, relative to the average level of per capita local own-source expenditures, the 6 to 8 percent term was obtained.

A note of caution is in order at this point. Because of the definition of the expenditure centralization variable (state expenditures-local expenditures) one might suspect the existence of a simultaneity problem. In an effort to purge the results of any simultaneous equation bias a two-stage, least squares approach was used. In the first stage, expenditure centralization was assumed to be a function of (1) local government expenditures (by definition), (2) the historical development of the division of functional responsibilities between levels of government, (3) the size of the state, and (4) the degree to which there is a possibility to exploit economies of scale. For the first stage, the independent variables in the expenditure equation (#1, Table A-2), other than expenditure centralization, were included; three regional variables were included dividing the country into four sections (Northeast, North Central, West, and South); the area of the state was included; and the population and population density is associated with increased opportunity to exploit economies of scale. Thus, expenditure centralization was regressed on 12 variables and estimates for this variable were computed. The estimated values for the expenditure centralization variable were then used in expenditure equation 1 in Table A-2. The initial findings were not altered when using this two-stage procedure.

In addition to the dichotomous case—limit-no-limit—a more refined classification of cases—no limit, levy limit, rate limit—was used in a similar specification of the expenditure equation. The empirical results are presented in equation 2 of Table A-2 and re-enforce the findings just discussed. Again, the variable

measuring the degree of expenditure centralization has the anticipated negative sign and is statistically significant; the urbanization, state aid, Federal aid, and per capita income variables were not statistically significant; the rate limit and levy limit dummy variables have the postulated negative signs and were significant at the 95 and 90 percent level of confidence, respectively; and the interactive variables—income multiplied by both the levy limit and rate limit dummy variables—are significant at the 90 and 95 percent level of confidence, respectively. Again, both coefficients for the interactive variables—contrary to the *a priori* assumptions—have positive signs.

In light of the findings that local expenditures are lower in states with limits than would otherwise be expected, one must address the question of whether or not the local expenditures sacrificed because of a tax or spending limit are pushed up to the state level. That is, does the existence of limits on local governments effect the level of total state-local own-source expenditures? With the dependent variable being per capita, state-local, own-source expenditures and with the same specification as equation 1 in Table A-2 (excluding state aid to localities) no tendency was found for the existence of limits on local governments to effect the level of total state-local own-source expenditures (Table A-3). The only significant variables were percent urban, per capita income, and per capita Federal aid.

LIMITS AND REVENUE DIVERSIFICATION

To analyze further the effect of tax and spending limits, it was hypothesized that, given some predetermined level of expenditures, state-imposed limits on local governments' use of the property tax as a source of revenue will result in an increased reliance on non-property tax revenue sources and thus the local revenue mix will become more diversified. To test this hypothesis, multiple regression analysis is used to discover whether, other factors held constant, the existence of limits is a significant factor in explaining the variation between states in the degree to which local governments rely on the property tax as a means of financing own-source local expenditures. The dependent variable is the percent of aggregate local own-source revenues attributable to the property tax.

Table A-3

**LIMIT EFFECT ON STATE-LOCAL EXPENDITURES:
REGRESSION RESULTS WHEN THE DEPENDENT VARIABLE
IS PER CAPITA STATE-LOCAL OWN-SOURCE EXPENDITURES¹**

Constant	Expenditure Central- ization	Percent Urban	Per Capita Income	Per Capita Federal Aid	Dummy A No Limit	Dummy A Times Income	R ² (F Value)
401.99	-0.284 (-0.84)	3.001** (2.62)	0.107** (2.47)	2.125* (10.11)	279.84 (-1.21)	0.053 (1.11)	-9.25 (42.52)

¹t-values in parentheses except in last column.

*Significant at the 99 percent level of confidence.

**Significant at the 95 percent level of confidence.

Table A-4

**LIMIT IMPACT ON LOCAL GOVERNMENT REVENUE DIVERSIFICATION:
REGRESSION RESULTS WHEN THE DEPENDENT VARIABLE
IS LOCAL PROPERTY TAXES AS A PERCENT OF
TOTAL OWN-SOURCE LOCAL REVENUE¹**

Variable Equation	Revenue Centralization	Per Capita Income	Per Capita State Aid	Dummy: Levy Limit	Dummy: Rate Limit	Dummy: Limit/ No Limit	Dummy: Other Taxes Available	R ² (F Value)
1	-0.079** (-2.89)	0.004 (1.42)				-6.77 (-1.65)	-15.20** (-4.10)	.701 (10.87)
2		0.007** (2.54)	-0.025 (-1.03)			-4.80 (-1.04)	-13.39** (-3.26)	.641 (7.86)
3	-0.075** (-2.69)	0.003 (1.19)		-3.75 (-0.77)	-8.33* (-1.93)		-15.27** (-4.14)	.711 (9.02)
4		0.006** (2.31)	-0.034 (-1.40)	0.548 (0.10)	-6.91 (-1.48)		-13.20** (-3.29)	.671 (7.19)
5	-0.076** (-2.71)	0.004 (1.53)	-0.014 (-0.60)			-5.99 (1.38)	-14.58** (-3.77)	.704 (8.65)
6	-0.069** (-2.42)	0.004 (1.44)	-0.022 (-0.92)	-1.94 (-0.37)	-7.45* (-1.68)		-14.32** (-3.73)	.718 (7.63)

¹t-values in parentheses.

*Significant at the 90 percent level of confidence.

**Significant at the 95 percent level of confidence.

Clearly, the mix of local own-source revenues depends on variables other than the existence of property tax limits. Specifically, in addition to limits, variables considered in this test included: (1) whether there is legal authorization for local governments' use of local sales and/or income taxes, (2) the interstate variation in per capita income, a proxy for the level of alternative tax bases, (3) variation in per capita state aid, representing the role that the state plays in financing local expenditures, and (4) differences in the degree of revenue centralization, a measure of the state role in the state-local fiscal system.

The latter two variables—revenue centralization and state aid—might appear to be highly correlated or representative of two alternative measures of the same phenomenon. This would be true, however, only if the revenue raised centrally—at the state level—was distributed back to the localities through a state revenue sharing mechanism. If revenue raised centrally is used to finance expenditures made centrally, the two variables—revenue centralization and state aid—do not measure the same phenomenon and would not be highly correlated. The simple correlation coefficient between revenue centralization and state aid is $-.009$, while the correlation coefficient between revenue centralization and expenditure centralization is 0.668 . Thus, it appears that revenue centralization and state aid do in fact measure different phenomenon.

In the empirical results presented in *Table A-4*, equations 1 and 3 include only the revenue centralization variable; equations 2 and 4 include only the state aid variable; equations 5 and 6 include both the revenue centralization and state aid variables.

Equations 1 and 2 test the simple dichotomous—limit-no limit—case.

In equation 1, revenue centralization and the dummy variable measuring the availability of alternative tax sources are both significant at the 95 percent level of confidence and have the anticipated negative sign. That is, as revenues—and to some extent expenditures—become centralized at the state level, or the state makes available to the local governments either an income or sales tax, the relative reliance on the property tax is reduced. In the latter case, it seems tautological that as tax revenues from other sources increase the relative share attributable to the property tax will decline. In the

former case, however, it is not as intuitively evident that as states raise a larger percentage of total state-local revenues local governments will respond by reducing reliance on the local property tax. The income variable in equation 1 is not significant, nor is the limit variable.

In equation 2—where the state aid variable is substituted for the revenue centralization variable—the income variable becomes significant and the variable indicating the availability of alternative tax sources remains significant. The state aid and the limit variables are not significant.

Equations 3 and 4 represent the same equation, only for the trichotomous case—no limit, rate limit, levy limit. The results are exactly the same as in the first two equations with the sole exception that in equation 3 the dummy variable indicating the presence of a state-imposed rate limit is significant at a 90 percent level of confidence.

The general findings, that revenue centralization and the availability of alternative tax sources reduce local governments' relative reliance on the property tax and that limits tend not to effect the extent of revenue diversification, are again supported by the evidence presented in equations 5 and 6 representing the two-way and three-way limit classifications, respectively. Equations 5 and 6 include both the revenue centralization and state aid variables, the latter of which proved not significant.

FOOTNOTES

¹Officials need not act explicitly in this manner for the model to be applicable. Rather, policy decision must only result as if the questions of revenue mix and expenditure level were considered independently.

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³See Jan Kmenta, *Elements of Econometrics* (New York, N.Y.: MacMillan Co.), 1971, pp. 409-425.

APPENDIX B

STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER
TO RAISE PROPERTY TAX REVENUE, 1976

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation ¹	Scope ²	Method ³	Number of mills ⁴	Coverage ⁵	Debt service exclusion ⁶	Specified purpose levies ⁷	Approved increases ⁸	
Alabama:									
Counties	C-S	Specific	Rate . .	5	All	Partial ^a . .	None . .	Voted ^b . .	^a Up to 2.5 mills for debt service, plus another 2.5 mills for debt incurred prior to 1875. ^b But, the amount of tax that may be imposed on any property in a taxable year is limited to 15 mills. ^c But, numerous municipalities have been authorized higher limits by constitutional amendments. ^d Excluding schools. ^e An additional 10 mills for servicing debt incurred prior to 1875. ^f Subject to voter approval.
Municipalities	C	.. do . .	.. do . .	5 ^c	All ^d . . . . .	.. do ^e . . . . .	.. do . .	.. do . .	
School districts	C	.. do . .	.. do . .	8-9 ^f	All	None . . . . .	.. do . .	.. do . .	
Alaska: Municipalities^a									
	S	Overall	Rate . . .	30 ^b	All	All	None . .	None . .	^a Includes cities and boroughs as well as schools. In addition, all municipal taxes from all sources are limited either to no more than \$1000 per resident or to no more than 225 percent of state average per capita assessment. ^b Second class cities, 5 mills.
Arizona:									
Counties	S	Specific	(a)	(a)	General . .	All	Few	Voted . .	^a The current tax levy may not exceed the previous year's levy by more than 10 percent, except for certain purposes. ^b No rate limitations, but voters must approve budget.
Municipalities	S	Specific	(a)	27.5 ^a	General . .	All	Few	Voted . .	
School districts	S	(b) . . . . .	.. do . .	.. do . .	.. do . .	.. do . .	.. do . .	.. do . .	
Arkansas:									
Counties	C-S	Specific	Rate . .	5	General . .	Partial ^a . .	Several ^b . .	None	^a Another 5 and 3 mills may be levied for servicing debt incurred prior to adoption of the tax limitation and its amendments. 1st and 2nd class cities may also levy another 5 mills for servicing debt incurred for specified purposes. ^b Subject to voter approval. ^c Community junior college districts, 10 mills. ^d An additional voluntary tax in any school district in a city with a population exceeding 40,000 if approved by a majority of the property owners.
Municipalities	C-S	.. do . .	.. do . .	5 . . . . .	.. do . .	.. do ^a . . . . .	.. do . .	.. do . .	
School districts	S	.. do . .	.. do . .	18 ^c	All	None	None . .	(d)	

See footnotes at the end of table.

APPENDIX B

STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1976 (Cont'd)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation ¹	Scope ²	Method ³	Number of mills ⁴	Coverage ⁵	Debt service exclusion ⁶	Specified purpose levies ⁷	Approved increases ⁸	
California: ^a									
Counties	C-S	Specific	Rate . . .	(a)	All	All	Numerous	Voted ^a . .	^a Local property tax rates frozen—counties, cities, and special districts limited to either the 1971-72 or 1972-73 fiscal year rate. Annual increases are permitted under prescribed conditions, such as an increase or decrease in the consumer price index or in population. Voters may approve increases. In an emergency situation, a local agency may increase the maximum tax rate by 1% for one year with an extraordinary majority vote of the local governing board and the State Controller may authorize additional amounts if one percent is insufficient. ^b Charter cities with a maximum tax rate authorized in their charter and special districts with a maximum tax rate authorized in their enabling statute use such rate as maximum. General law cities which levied less than 10 mills per \$1 of assessed valuation in 1972-73 have 10 mills as maximum. ^c Varies by school district in accordance with a statutory formula that includes the level of the state foundation program, inflation, federal aid, and other state aid. For any one school district, limitation is determined by the base revenue limit per unit of average daily attendance as set for the school year 1972-73 with a yearly increase allowed as an inflation adjustment. ^d Tax levies, including maximum rates in some cases, are authorized by legislative acts under both general and special laws.
Municipalities	C-S	.. do ..	.. do ..	(a) (b) ..	All	All . . . .	.. do ..	.. do ..	
School districts	C-S	.. do ..	.. do ..	(c)	(c)	All	Several . . .	.. do ..	
Special districts	C-S	.. do ..	.. do ..	(b) (d) . .	(b) (d) . .	All	Numerous . .	.. do ..	
Colorado:									
Counties	S	Specific	Rate . . .	5-12 ^a . ^b	General . .	All	Few	Voted	^a The greater the assessed valuation, the lower the limit. ^b The total levy for all purposes shall not exceed 7 percent more than the aggregate for the previous year, unless the Division of Local Government in the State Department of Local Affairs approves an additional increase. Generally, not applicable to home rule municipalities. ^c No specific rate limit.
Municipalities	S	.. do ..	(b) . . . .	.. . . . .	All	All	None . . . .	.. do ..	
School districts	S	.. do ..	(b) (c) . .	.. . . . .	All	All . . . .	.. do ..	.. do ..	
Special districts	S	.. do ..	(b) . . . .	.. . . . .	All	All . . . .	.. do ..	.. do ..	
Connecticut (no limitations) ^a									
^a Forest or timber land over 25 acres and classified by State forester may not be taxed at more than 10 mills based on full value of land and timber thereon while proper forestry conditions are maintained.									

See footnotes at the end of table.

APPENDIX B

STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER
TO RAISE PROPERTY TAX REVENUE, 1976 (Cont'd)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation ¹	Scope ²	Method ³	Number of mills ⁴	Coverage ⁵	Debt service exclusion ⁶	Specified purpose levies ⁷	Approved increases ⁸	
Delaware:									
Counties (Kent and Sussex) ^a	S	Specific	Rate	5	All	All	None	Voted	^a New Castle has no specific rate limit. Effective 6/15/72 no county property tax for a fiscal year immediately following total reassessment may be imposed at a rate which will yield revenues (excluding initial assessments) over 15% above the previous fiscal year. ^b After a general county reassessment school district rate must be recalculated so that revenue will not be over 10% greater than previous fiscal year (effective 6/15/72).
Municipalities, no limitations									
School districts, no limitations ^b									
Florida:									
Counties	C-S	Specific	Rate	10 ^a	General	All	Several ^b	Voted	^a A county that provides municipal services may levy up to an additional 10 mills. ^b For 2 years or less.
Municipalities	C-S	do	do	10	All	All	None	do	
School districts	C-S	do	do	10	All	All	do	do	
Georgia:									
Counties ^a	S	Specific	Rate	5	General	None	Several	Voted	^a Counties and certain municipalities are authorized, upon a vote of the electorate, to adopt either a 1 percent local income tax or a 1 percent local sales tax provided that after the first year in which an income or sales tax is imposed, property tax rates are reduced to a level which will produce revenue equal to the previous year's property tax revenue minus the amount collected from the income or sales tax in the previous year (or an annual basis if imposed only for part of the year). Thereafter, the regular limitations apply. ^b Excluding home rule charter cities and numerous specified cities and towns. ^c Excluding independent (city) school districts in existence prior to 1946.
Municipalities ^{a,b}	S	do	do	5	do	All	Few	do	
School districts ^c	C	do	do	20	All	All	None	Voted	
Hawaii									
Counties (no limitations) ^a									^a The state director of taxation must certify a county property tax rate, effective 1/1/77, that will raise the same revenue as in the current year when applied to next year's property tax base. To set a higher rate, county councils must advertise their intent and hold a public hearing.
Idaho:									
Counties	S	Specific	Rate	13 ^a	General	All	Numerous	None	^a Depending on assessed valuation.
Municipalities	S	do	do	45	do	All	do	do	
School districts	S	do	do	27	do	All	do	Voted	
Illinois:									
Counties	S	Specific	Rate	1.2-2 ^a	General	All ^a	Numerous	Voted	^a Based upon population size, and applicable to non home-rule units only. ^b For "corporate" purposes. ^c Excluding charter cities (10 mills) and Chicago. ^d Based on population size. ^e For "education," based upon the grade level; except the limit is 25.6 mills for the Chicago school district. ^f Limits vary with the type of district.
Municipalities	S	do	do	2.50 ^c	do ^b	All	do	do	
Townships	S	do	do	2.5-4.5 ^d	do ^b	All	do	do	
School districts	S	do	do	9.2-16 ^e	do ^b	All	do	do	
Special districts	S	do	do	(f)	All	All	None	do	

See footnotes at the end of table.

APPENDIX B

STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER
TO RAISE PROPERTY TAX REVENUE, 1976 (Cont'd)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation ¹	Scope ²	Method ³	Number of mills ⁴	Coverage ⁵	Debt service exclusion ⁶	Specified purpose levies ⁷	Approved increases ⁸	
Indiana:									
All taxing units ^a . . .	S	Overall . .	Rate . .	12.5-20 ^b	General .	All	Few . .	(c)	^a In counties that adopt a local option income tax; the property tax levy for all units in the county is fixed at the 1973 levy. In addition, a percentage of the income tax revenue is earmarked for property tax replacement over a three year period. In counties that do not adopt an income tax, the property tax rate for all units in the county is fixed at either the 1973 rate or the average of the 1970, 1971, and 1972 rates. All debt service levies are excluded. Units can obtain relief from limits by approval of the local government tax control board.
Municipalities	S	Specific . .	do . .	12.5 ^d	do . .	All	Few . .	(c)	
School districts	S	do . .	do . .	49.5 ^e	All	All	None . .	None . .	
^b Property situated outside of cities and towns—12.5 mills; property within cities and towns—20 mills. Rate limit ineffective when emergencies are declared locally.									
^c By application to State Board of Tax Commissioners.									
^d Within the overall limits.									
^e Outside the overall limits.									
Iowa									
Counties ^a	S	Specific . .	Rate . .	3-4.5 ^b	General .	All	Numerous	None . .	^a Certain levy increases are limited by statute to an aggregate increase of 9 percent for fiscal year 1977 to 7 percent for fiscal years 1978 and 1979.
Municipalities ^a	S	do . .	do . .	30	do . .	All	do . .	do . .	
School districts ^a	S	do . .	do . .	(c)	do . .	None	do . .	(d)	
^b The greater the assessed valuation, the lower the limit.									
^c Uniform county-wide levy set by statutory formula. 1972 levies frozen at 1971 dollar levels except as authorized by School Budget Review Committee. Area vocational schools and area community colleges are permitted to be established in merged areas (2 or more county school systems or parts thereof) with a 3/4-mill rate limit, plus an additional 3/4-mill if approved by voters.									
^d Subject to evaluation by School Budget Review Committee.									
Kansas:									
Counties ^a	S	Specific . .	Rate . .	3.5-6.5 ^b	General .	All	Numerous	(c)	^a Local taxing units are prohibited by statute to levy an aggregate rate (with certain exceptions, such as debt service levies) that would produce an amount in excess of the aggregate amount levied in 1969 for use in 1970 (base year). Each taxing jurisdiction is required to reduce its property tax levy or levies by the amount it receives from the State as its share of the local ad valorem tax reduction fund. The tax rates, within the statutory limitations, are computed on the basis of the reduced levies.
Municipalities ^a	S	do . .	do . .	0.5-3 ^a	do . .	All	do . .	(c)	
School districts	S	do . .	(e)	(e)	Operating	All	do . .	(f)	
Townships ^a	S	do . .	Rate . .	2.5g . .	General .	All	do . .	(c)	
^b Based on assessed valuation: less than \$13 million or population below 3,500, 6.5 mills; \$13 million to \$30 million, 4.25 mills; \$30 million to \$140 million, 3.5 mills; over \$140 million, 4.25 mills. But the total for									

APPENDIX B

STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER
TO RAISE PROPERTY TAX REVENUE, 1976 (Cont'd)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation ¹	Scope ²	Method ³	Number of mills ⁴	Coverage ⁵	Debt service exclusion ⁶	Specified purpose levies ⁷	Approved increases ⁸	
Kansas (Continued)									
									all purposes (with certain exceptions) shall be 5.3-8.75 mills, based on assessed valuation with modifications for population size.
									^c Voted at election or authorized by State board of tax appeals and limited to 25 percent above the statutory limits.
									^d Based on class of city governing body empowered to levy taxes for general fund and other city purposes. Certain purposes have specific limitations ranging from 0.5-3 mills.
									^e The amount a district can budget or expend for operating expenses per pupil is limited to 115 percent of the amount legally budgeted for operating expenses per pupil in the preceding school year or 110 percent of the median budget per pupil in the 1974/75 school year whichever is lower and subject to a reduction in State aid for any excess amount expended.
									^f Voted at election or authorized by school budget review board, not limited to a specified amount.
									^g Aggregate limitation of 2.5 mills for all levies, with certain exceptions.
Kentucky:									
Counties	C	Specific	Rate . . .	5	General	Partial ^a . .	Few . . .	None . . .	^a Additional levies are permitted to service debt outstanding prior to adoption of the tax limitation, and debt approved by 2/3 of the voters.
Municipalities	C	do	do . . .	7.5-15 ^b	do	do ^a . . .	Few . . .	do . . .	^b The greater the population, the higher the rate. Limited to amount of revenue produced in 1971 (excluding net assessment growth).
School districts	S	do	do . . .	15 . . .	All	All	None . . .	Voted ^c . . .	^c Up to 5 mills for school construction, or for lease payments on buildings financed through the issue of revenue bonds.
Special districts	C	do	Rate . . .	5	General	Partial ^a . .	Few . . .	Voted . . .	
Louisiana:									
Parishes (counties)	C	Specific	Rate . . .	4 ^a	General	All	Numerous	Voted . . .	^a 7 mills in Orleans Parish, 5 mills in Jackson Parish.
Municipalities	C	Specific	Rate . . .	7 ^b	do	do	do	do	^b 10 mills where municipality maintains its own public schools.
School districts	C	Overall	Rate . . .	5	do	do	do	do ^c	^c Up to 5 mills for general purposes, not to exceed 20 mills additional with election.

See footnotes at the end of table.

APPENDIX B

STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1976 (Cont'd)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation ¹	Scope ²	Method ³	Number of mills ⁴	Coverage ⁵	Debt service exclusion ⁶	Specified purpose levies ⁷	Approved increases ⁸	
Maine (no limitations) ^a	.....	.....	.....	.....	.....	.....	.....	.....	^a State imposes a property tax rate for local and state governments of 10.75 mills for the year ending 6/30/77 and increasing by 1.5 mills each year to 13.75 mills for the year ending 6/30/79 and every year thereafter and the state imposes a uniform school tax rate of 13 mills for the year ending 6/30/77 and 12.5 mills for every year thereafter.
Maryland (no limitations)	.....	.....	.....	.....	.....	.....	.....	.....
Massachusetts (no limitations)	.....	.....	.....	.....	.....	.....	.....	.....
Michigan:									
Cities, villages, charter counties, etc. ^a	S	Specific	Rate	20 ^b	All	None	(b)	Voted	^a Cities, villages, charter counties, charter townships, charter authorities, or other authorities, the tax limitations of which are provided by charter or by general law.
Other taxing units	C	Overall	Rate	15 ^c	All	All	Few	Voted ^d	^b Specified rate limits, ranging up to 20 mills are provided outside the overall limits depending upon type of local unit, and existence of charter. In some instances, additional levies for special purposes are permitted. Where the state orders property revaluation, however, commensurate reductions in millage are required.
Minnesota:									^c 18 mills if separate tax limitations for any county for the townships and for school districts therein are adopted by a majority of voters.
Counties	S	Overall	Amount	None ^a					^d Limited to 50 mills and 20 years.
Charter Cities	S	Overall & Specific	Rate, amount & dollars per capita	13.33 ^{a,b}	General	None ^b	Numerous	None	^a There are no rate limitations for county governments. County governments, cities of 2,500 population or more and towns with statutory city powers of 2,500 population or more are subject to an overall levy limitation. This limitation is a stated dollar amount, based on the unit's property tax levy in 1970 for taxes payable in 1971.
Statutory Cities	S	do	do	11.67 ^{a,c}	do	None ^c	do	do	Levies for several purposes, including levies for debt service, are special levies authorized in addition to this limitation. A governmental subdivision's overall levy limitation may be increased by referendum. When other limits apply, the most restrictive limitation takes effect.
Townships	S	do	Rate & Amount	5.67 ^{a,d}	do	None ^d	do	do	^b Applicable to third and fourth class cities, unless a greater amount is authorized by charter. Not applicable in third class cities contiguous to first class cities located in a different county or cities of the fourth class located in a county having a city of the first class. The maximum levy
School Districts	S	do	Dollars per capita or per pupil and rate	29 ^e	do	All	do	do	
Special Districts	S	Specific	Rate or amount	Various ^f	do	All	do	do	

See footnotes at the end of table.

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STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER
TO RAISE PROPERTY TAX REVENUE, 1973 (Cont'd)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation ¹	Scope ²	Method ³	Number of mills ⁴	Coverage ⁵	Debt service exclusion ⁶	Specified purpose levies ⁷	Approved increases ⁸	
Minnesota (Continued)									<p>in all charter cities is \$54 per capita, including debt service, plus upward adjustments commensurate with increases in the BLS Consumer Price Index. However, deficiency levies for debt service are not limited.</p> <p>^cApplicable to statutory cities with assessed valuation of less than \$1,500,000. For statutory cities with assessed valuation of more than \$1,500,000 the maximum mill rate is 10. The maximum levy in all statutory cities is \$54 per capita, including debt service, plus upward adjustments commensurate with increases in the BLS Consumer Price Index. However, deficiency levies for debt service are not limited.</p> <p>^dApplicable to towns in which 5.67 mills would produce \$1,000 or more of taxes per section. For other towns the effective limit is whatever mill rate would produce \$1,000 of taxes per section. Deficiency levies for debt service and levies for principal and interest on water and sewer bonds are not limited.</p> <p>^eThis limitation is 29 mills applied to the adjusted assessed valuation of the school district.</p> <p>^fLimitations, when specified, are expressed in mills, dollars amounts, or per capita dollar amounts.</p>
Mississippi:									
Counties	S	Specific	Rate . . .	6-12 ^a	General	All	Few . . .	(b)	^a The greater the assessed valuation, the lower the limit.
Municipalities	S	.. do ..	.. do ..	15 . . . .	.. do ..	All	Few . . .	None	^b An additional 2 mills may be levied by counties with an assessed value of less than \$8,000,000, 1 mill by counties with above \$8,000,000, subject to petition for an election.
School districts	S	.. do ..	.. do ..	25 ^c	All	All	Few . . .	Voted	^c For county school districts, the difference between the minimum support program and 25 mills or 10 mills whichever produces the greater amount; for municipal school districts, the difference between the minimum 25 mills, or 15 mills, whichever produces the greater amount.
Missouri:									
Counties	C-S	Specific	Rate . . .	3.5 or 5.0 ^a	General	All	Several . .	Voted ^b . . .	^a 3.5 mills in counties with \$300 million or more assessed valuation; 5 mills in all other counties.
Municipalities	C-S	.. do ..	.. do ..	10 ^c . . . .	.. do ..	All . . . . .	.. do ..	.. do ^b . . .	^b Limited for 4-year periods and, for cities, to 3 mills.
School districts	C-S	.. do do ..	6.5 or 12.5 ^d	.. do ..	All do do ^e	^c The statutes impose a 5-mill limit on towns and villages. St. Louis is permitted the sum of municipal and
Townships	S	.. do do ..	2 ^{c,f} do ..	All do ..	None	

See footnotes at the end of table.

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STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER
TO RAISE PROPERTY TAX REVENUE, 1976 (Cont'd)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation ¹	Scope ²	Method ³	Number of mills ⁴	Coverage ⁵	Debt service exclusion ⁶	Specified purpose levies ⁷	Approved increases ⁸	
Missouri (Continued) . . .									county limitations or 13.5 mills. ^d School districts formed of cities and towns including the school districts of St. Louis, 12.5 mills; other districts, 6.5 mills. ^e Voted levies cannot exceed 3 times the basic rate for a 1-year period (2 years in cities of 75,000 population or more). ^f Provided that the combined township and county rate may not exceed the constitutional limit established for county purposes.
Montana:									
Counties ^a	S	Specific	Rate . . .	25-27 ^b	General	All	Numerous	Voted ^c . . .	^a By statute, jurisdictions must set a millage sufficient to raise revenue equal to the prior year's levy when applied to 95 percent of the taxable value. Local governing bodies can approve a higher millage only after advertising their intention and holding a public hearing. ^b Depending on taxable value class. ^c For certain specified purposes. ^d Provided, that cities whose indebtedness equals or exceeds the constitutional limitations, the maximum levies for general municipal and administrative purposes shall be 15 mills. An all purpose annual levy, not to exceed 65 mills, in lieu of the multiple levies now in existence. ^e Mandatory countywide levies of 25 mills for elementary schools and 15 mills for high schools in connection with State school foundation program. Where State appropriations are not sufficient to fund the foundation program fully, counties are required to impose additional levies to make up for the deficiency. School districts may levy additional amounts (above the foundation program) up to 9 mills for elementary schools and 6 mills for high schools.
Municipalities ^a	S	do	do	24 ^d	do	All	do	do ^c . . .	
School districts ^a	S	do	(e)	(e)	(e)	(e)	(e)	(e)	
Nebraska:									
Counties	C-S	Specific	Rate . . .	5	All	All ^a	None	Voted	^a Except for servicing debt incurred prior to adoption of the constitutional amendment, voter approval is required. ^b Based upon population size. The constitutional limits are stated in terms of "actual value" of property, but the statutory limits are in terms of "assessed value" which is defined as 35 percent of "actual" value. ^c Subject to voter approval. ^d 12 mills for 1st-class cities, 10 mills for 2nd-class cities. By local ordinance, Lincoln's limit in 1975 was 27.44 mills and Omaha's 50 mills.
Do	S	do	do	10-12 ^b	General	All ^c	Numerous	None	
Municipalities	S	do	do	12 or 10 ^d	All	All ^c	None	(e)	
School districts	S	do	do	12 ^f	All	All ^e	do	Voted ^e	
Townships	S	do	do	8	All	All ^c	do	None	

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STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1976 (Cont'd)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation ¹	Scope ²	Method ³	Number of mills ⁴	Coverage ⁵	Debt service exclusion ⁶	Specified purpose levies ⁷	Approved increases ⁸	
Nebraska (Continued)									
						^a If maximum levy permitted is inadequate (due to reduced valuation) to produce necessary revenue, such levy may be exceeded for up to 5 years with voter approval. 1st and 2nd class school districts may levy additional taxes subject to voter approval (55 percent); a 60 percent voter approval is required to levy a 1/4-mill recreation fund tax. ^f Limit applies to 1st- and 2nd-class districts only.			
Nevada:									
All taxing units	C-S	Overall	Rate . . .	50 . . .	All	None . . .	None . . .	None . . .	^a Within the overall 50-mill rate.
Municipalities	S	Specific	do . . .	30 ^{a,b}	All	do . . .	do . . .	do . . .	^b Special tax rates are established by the legislature for selected cities.
School districts	S	do	do . . .	15 ^{a,c}	All	All	do . . .	do . . .	^c Mandatory levy.
Unincorporated towns	S	do	do . . .	15 ^{a,d}	All	All	do . . .	do . . .	^d Counties may levy this tax in such towns located within said counties. There is no maximum tax rate for all county purposes, but separate limits are set for certain county purposes.
New Hampshire (no limitations)									
New Jersey ^a									
						^a Although property taxes are not explicitly restricted, effective with tax year 1977, municipalities with greater than a 10 mill general purpose levy and all counties are prohibited from increasing their final appropriations by more than 5% over the previous year. Exceptions are revenue generated by new construction or improvements, capital expenditures funded by non-property tax sources, all debt service, expenditures mandated by State or Federal law and others. Higher appropriations are allowed when approved by referendum.			
New Mexico:									
All taxing units	C	Overall	Rate . . .	20 ^a	General ^b	All	Few ^b	(b)	^a Includes 2.85 mills for State purposes.
Do	S	Specific	(c)	(c)	do	do	do	(c)	^b When approved by the voters, the legislature may authorize taxes outside the 20-mill limit.
Counties	S	do	Rate . . .	6	General	All	Few . . .	(b)	^c All increases in tax rates are limited to 5 percent in excess of the previous year's rate, except upon approval of the State tax commission.
Municipalities	S	do	do . . .	2.225 . . .	do	All	Few . . .	(b)	
School districts	S	do	do . . .	8.925 . . .	do	All	Few . . .	(b)	
New York:									
Counties	C	Specific	Rate . . .	15-20 ^a	All ^b	(h)	None . . .	(a)	NOTE: Rate limitations in New York apply against the average full value of real estate for the preceding 5 years.
Cities	C	do	do . . .	20 ^c	All ^d	(h)	do . . .	None . . .	

See footnotes at end of table.

APPENDIX B

STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER
TO RAISE PROPERTY TAX REVENUE, 1976 (Cont'd)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation ¹	Scope ²	Method ³	Number of mills ⁴	Coverage ⁵	Debt service exclusion ⁶	Specified purpose levies ⁷	Approved increases ⁸	
New York (Continued)									
Certain school districts ^e	C	do	do	12.5-20 ^f	All ^b	(h)	do	Voted ^g	^a The limit is 15 mills, but it may be increased to 20 mills by 2/3 vote of the county legislative body or by majority vote of such body followed by a mandatory referendum. ^b Excluding capital construction. ^c The limit for New York City is 25 mills (for combined county, city, and school purposes). For cities with populations over 125,000, the limit includes taxes for schools. ^d Excluding capital construction (but for New York City the amount of the capital improvement must be charged against the debt limit). ^e School districts that are coterminous with or partly within cities having less than 125,000 population. ^f The basic rate is 12.5 mills, but districts having higher rates prior to 1947 are permitted to retain them, up to a 20-mill limit. ^g Voters may authorize additional levies, at 2.5 mills per election, up to 20 mills (exclusive of capital improvements). ^h Debt service on short-term debt issued for noncapital purposes is not excludable.
Villages	C	do	do	20	All	(h)	do	None	
North Carolina:									
All taxing units	C	Overall	(a)	(a)	All	None	(a)	(a)	^a The constitution requires an approving vote of the people for all property tax levies except those authorized by general law applicable without classification or exception to all local units of like kind, such as all counties, all cities, all sanitary districts, etc. ^b The rate limitation does not apply to levies for courts, schools, debt service, funding deficits from prior year, elections, jails, mandated social services programs, and joint undertakings with respect to any of the foregoing. Pursuant to constitutional authority, the legislature has approved property tax levies without a vote, subject to the rate limitation, for 37 specific purposes, including all county functions of importance except economic development activities. ^c The voters may approve an increase in the overall rate limitation, or levies for any specific purpose. A specific voter-approved levy is not counted against the overall rate limitation.
Counties	S	Specific	Rate	15	All	All	7 ^b	Voted ^c	
Municipalities	S	Specific	Rate	15	All	All	3 ^d	Voted ^c	
Special Districts	S	Specific	Rate	(e)	All	All	(e)	Voted	

See footnotes at the end of table.

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STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER
TO RAISE PROPERTY TAX REVENUE, 1976 (Cont'd)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation ¹	Scope ²	Method ³	Number of mills ⁴	Coverage ⁵	Debt service exclusion ⁶	Specified purpose levies ⁷	Approved increases ⁸	
North Carolina (Continued)									<p>^dThe rate limitation does not apply to taxes levied for debt service, funding deficits from prior year, or cost of quelling civil disorders. Pursuant to constitutional authority, the legislature has approved property tax levies without a vote, subject to the rate limitation, for 34 specific purposes, including all city functions of importance except public housing, urban redevelopment, economic development activities, and public transportation.</p> <p>^eEach type of special district is subject to special limitations. All types require voter approval for any property tax levy. Usually there is no limitation on the rate that may be approved.</p>
North Dakota:									
Counties	S	Specific	Rate . . .	23 . . .	General	All	Numerous	Voted ^a . .	^a Up to 50 percent in excess of legal limits for 1 year.
Cities	S	do	do	31 ^b . . .	do	All	do	do ^a	^b Cities with populations over 5,000 may levy an additional 0.05 mills per 1,000 persons over 5,000 up to 33 mills and upon majority vote may increase maximum levy by 5 mills.
School districts . . .	S	do	do	19-34 ^c .	do	All	do	do ^d	^c For any one school district, the rate limitation is the sum of the individual rates applicable to the specific grades taught. The basic limit is 19 mills, going up to 34 mills for districts offering 4 years of high school. Districts having over 4,000 population and providing 4 years of high school may remove all limitations with approval of a majority of the voters.
Civil townships . . .	S	do	do	18	All	All	do	do ^a	^d Up to 25 percent in excess of legal limits, provided that if 60 percent of voters approve, up to 75 percent in excess may be levied. See also note (c) above.
Park districts	S	do	do	4 ^e	All	All	(e)	do ^f	^e Plus another 4 mills for the purchase of airport property. ^f An additional 6 mills.
Ohio:									
All taxing units	C-S	Overall ^a	Rate . . .	10	All	All ^b	Few	Voted ^c . . .	^a Excluding cities with charters permitting rates in excess of their share of the overall rate. ^b For servicing debt authorized by the voters. Taxes levied to service debt not authorized by election must be approved by the voters. ^c Subject to numerous provisions regarding purposes of levies and the machinery for obtaining voter approval.

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STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER
TO RAISE PROPERTY TAX REVENUE, 1976 (Cont'd)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation ¹	Scope ²	Method ³	Number of mills ⁴	Coverage ⁵	Debt service exclusion ⁶	Specified purpose levies ⁷	Approved increases ⁸	
Oklahoma:									
All taxing units . . .	C	Overall	Rate . . .	15 ^a . . .	All	All	Several ^b .	Voted ^c . . .	^a School districts are assigned 5 mills of this total; and, in addition, counties shall levy 4 mills outside the limitation for school purposes, and school districts, upon certification of need by the board of education may levy another 15 mills outside the overall limits; plus an additional 10-mill local support and a 5-mill emergency levy, both subject to voter approval. Area school districts may be established for support of vocational and/or technical schools, with a 5-mill levy limit subject to voter approval. ^b Subject to voter approval. ^c Subject to provisions regarding purposes of levies and maximum increases in rates.
Oregon:									
All taxing units . . .	C-S	Overall	(a)	(a)	(a)	All	(a)	Voted . . .	^a Each local taxing unit's levy shall not exceed 106 percent of the established tax which was lawfully levied in any one of the previous three years in which the tax was levied, exclusive of levies specifically authorized by the legislature or approved by the voters. The statutes provide general and specific rate limitations for designated taxing units (e.g., county fairs, libraries, hospitals, roads, and port districts).
Pennsylvania:									
Counties	S	Specific	Rate . . .	15-30 ^a . . .	General ^a .	All	Few . . .	None . . .	^a Depending on class of county. An additional 10 mills is authorized for rental payments to municipal authorities.
Municipalities ^b	S	.. do . . .	.. do . . .	25 . . . . .	.. do . . .	All	Few . . .	.. do ^c . . .	
School districts	S	.. do . . .	.. do . . .	(d)	(d)	(d)	(d) . . . . .	.. do . . .	
Boroughs	S	.. do . . .	.. do . . .	30	General . . .	All	Few . . .	Voted ^e . . .	^b Applicable to cities of the 3d class. Cities of the 1st class (Philadelphia), 2d class (Pittsburgh), and 2d
Townships	S	.. do . . .	.. do . . .	14-30 ^f . . .	.. do . . .	All	Few . . .	.. do ^{c,e} . . .	

See footnotes at end of table.

APPENDIX B

STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER
TO RAISE PROPERTY TAX REVENUE, 1976 (Cont'd)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation ¹	Scope ²	Method ³	Number of mills ⁴	Coverage ⁵	Debt service exclusion ⁶	Specific purpose levies ⁷	Approved increases ⁸	
Pennsylvania (Continued)									
									<p>class A (Scranton) may levy property taxes at the necessary rate.</p> <p>^cCities of the 3d class and townships may petition to the court of quarter sessions for an additional general levy up to 5 mills.</p> <p>^dThe permissible rate varies with the class of school districts, ranging from 11.75 mills, with specified additional rates, for 1st class and 1st class A districts; to 25 mills for class 2 to 4 districts, with authorization for additional levies at necessary rates for certain specified purposes (including debt servicing); to 75 mills (for all purposes) for "independent districts." The Philadelphia City Council is authorized to levy an additional school tax of 4.25 mills.</p> <p>^eRestricted as to purpose and rate.</p> <p>^f30 mills for 1st class, 14 mills for 2d class townships.</p>
Rhode Island:									
Cities and towns ^a	S			(b)					<p>^aSchool taxes are included with city and town taxes. There are no organized counties.</p> <p>^bTowns may raise by a tax on personal or real estate, or on both, such sums of money as shall be necessary to pay town debts, or to defray the charges and expenses of the town, subject to voter approval.</p>
South Carolina:									
Counties and municipalities, no limitations	S								^a Subject to voter approval.
School districts	S	Specific	Rate	15 ^a	All	All	do	Voted	^b H.B. 1398 (Laws 1973) provides for the issuance of general obligation bonds not to exceed 2.75 million for the Richland-Lexington Riverbanks Park District, and the levying of an annual tax on the taxable property in the District sufficient to pay the principal and interest on these bonds as they mature, and also, to create a sinking fund as it may become necessary.
Special district	S	do	(b)	(b)					

See footnotes at end of table.

APPENDIX B

STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER
TO RAISE PROPERTY TAX REVENUE, 1976 (Cont'd)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation ¹	Scope ²	Method ³	Number of mills ⁴	Coverage ⁵	Debt service exclusion ⁶	Specified purpose levies ⁷	Approved increases ⁸	
South Dakota:									
Counties	S	Specific	Rate . .	5-10 ^a	All ^b . . .	All	Few . . .	Voted ^c .	^a 5 mills for unorganized counties and 5 to 10 mills, varying inversely with the amount of assessed valuations, for organized counties. ^b All purposes except the poor relief fund. ^c Up to another 10 mills if 3/4 of voters approve. ^d 20 mills each for elementary and high school systems, 40 mills for combined systems on nonagricultural property. Both agricultural and nonagricultural property are subject to the first 8 mills after which 2 mills are levied on non-agricultural property for each mill levied on agricultural property. Thus, the maximum levy for agricultural proerty is 24 mills.
Municipalities	S	.. do ..	.. do ..	15 . . .	All ^b . . .	All	None . . .	.. do ^c .
School districts	S	.. do ..	.. do ..	20-40 ^d	All	All . . . .	.. do . . .	.. do ^c .
Townships	S	.. do ..	.. do ..	5	All ^b . . .	All . . . .	.. do . . .	.. do ^c .
Tennessee:									
Counties, no limitations ^a	Note: Schools are primarily operated by cities and counties in Tennessee. ^a The county tax rate is determined by the quarterly county court, and includes all purposes except roads and bridges, schools, debt servicing, and levies authorized by special legislative acts.
Municipalities, no limitations . . . . .	..	..	..	..	..	..	..	..
Towns	S	Specific	Rate . .	15 . . .	All	None . . .	None . . .	None . . .	
Texas:									
Counties	C	Specific	Rate . .	8	All ^a . . .	Partial ^b .	(a)	None ^c . .	^a All purposes, except an additional 3 mills may be levied for farm-to-market roads. ^b For debt service of bonds for specified purposes including construction and improvement of roads, reservoirs, dams, etc. ^c Except, if authorized by the legislature, voters may approve a 1.5-mill tax for roads. ^d Cities over 5,000 population may levy 25 mills, unless their charters specify otherwise. ^e Junior college districts are also permitted to levy a 10-mill tax. All school taxes, however, are subject to majority voter approval.
Municipalities: Non-charter (general law)	C	.. do ..	.. do ..	15 . . .	All . . . .	.. do ^b . .	None . . .	None . . .
Charter (home rule)	C-S	.. do ..	.. do ..	25 ^d . . .	All	None . . .	.. do . . .	.. do . . .
School districts	S	.. do ..	.. do ..	15 ^e . . .	All . . . .	.. do . . .	.. do . . .	.. do . . .
Villages	S	.. do ..	.. do ..	2.5 . . .	All . . . .	.. do . . .	.. do . . .	.. do . . .

See footnotes at end of table.

APPENDIX B

STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1976 (Cont'd)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation ¹	Scope ²	Method ³	Number of mills ⁴	Coverage ⁵	Debt service exclusion ⁶	Specified purpose levies ⁷	Approved increases ⁸	
Utah:									
Counties	S	Specific	Rate . . .	16-18 ^b	All	All	Several	None . . .	^a After a property tax revaluation, tax yield for any taxing district is limited to 106 percent of previous years' revenue except that in an emergency condition requiring additional revenue such limitation may be increased, subject to majority voter approval. ^b Counties with more than \$20,000,000 assessed valuation are permitted only 16 mills. ^c School districts must levy sufficient taxes to support the State education program. A district may levy an additional tax to provide for an amount up to 10 percent of the minimum basic program. ^d An additional 10 mills is permitted for capital improvements, plus an additional 10 mills for maintenance and operation, both subject to voter approval. ^e A 4-mill additional tax is permitted, subject to 2/3 voter approval.
Municipalities (cities)	S	do	do	35	General	All	do	do	
School districts	S	do	(c)	(c)	(c)	All	Few ^c	Voted ^d	
Towns	S	do	Rate	16	General	All	Several	do ^e	
Vermont (no limitations)	^a Where any annual assessment or general reassessment of real property results in an increase of at least eight percent in the total real property tax collected, the locality must reduce its rate to produce no more than 108 percent of the total real property tax collected in the previous year on such reassessed property. The governing body may, however, increase the reduced rate but only after conducting a public hearing, which may be held at the same time and place as the annual budget hearing. Effective 1/1/76.
Virginia (no limitations) ^a	...	...	...	...	...	...	...	...
Washington:									
All taxing units ^a	C	Overall	Rate . . .	10 ^b	All	All	None	Voted . . .	^a Except port and public utility districts. ^b Limit applies to any taxpayer's property. In addition, all regular levies of taxing districts may not exceed statutory limit of 9.5 mills. The statutory mill limit is divided among the statewide public school rate (3.6 mills), the county rate and mill rates for other purposes depending upon whether the property is inside or outside a city or
Counties	S	Specific	do	1.8 ^c	All	All	do	do	
Municipalities	S	do	do	3.6 ^c	All	All	do	do	
School districts	S	do	do	(b)	All	All	do	do	
Special districts	S	do	do	(d)	All	All	do	do	
Townships	S	do	do	(e)	(e)	(e)	(e)	(e)	

See footnotes at end of table.

APPENDIX B

STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER
TO RAISE PROPERTY TAX REVENUE, 1976 (Cont'd)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation ¹	Scope ²	Method ³	Number of mills ⁴	Coverage ⁵	Debt service exclusion ⁶	Specified purpose levies ⁷	Approved increases ⁸	
Washington (Continued)									town. There is, further, a statutory restriction on the annual dollar increase in yield from regular levies (except state and schools) of 6 percent, exclusive of revenues from new construction. The base is the highest amount of regular levy taxes made during the three most recent years. ^c Within the 9.5 mill limit. ^d Numerous special districts may levy taxes within the overall limits. Note, however, the exception of port and public utility districts. ^e Townships share with other junior taxing jurisdictions, in amounts to 1.5 mills in unincorporated areas.
64 West Virginia:									
All taxing units	C-S	Overall . .	Rate . . .	5-20 ^a . .	All ^b . . .	(b)	None . .	Voted ^c . .	^a A separate overall rate limit applies to each of 4 classes of property, and is apportioned by statute among the various types of government, including the State. Thus, of the 5 mills allowed on class 1 property, municipalities are currently allotted 1.250 mills, counties 1.430 mills, school districts 2.295 mills, and the State 0.025 mill. The allocation of the rates allowed the other 3 classes is in the same proportion. The 4 classes are: I—intangible and agricultural personal property; II—owner-occupied residential property and farm occupied and cultivated by owners or bona fide tenants; III—all other property situated outside municipalities; and IV—all other property situated inside municipalities. ^b Debt service for school districts is excluded from the limitations. ^c School districts may increase their levies by 100 percent for a 5-year period; all other governments may increase their levies by 50 percent for a 3-year period.
Counties	S	Specific . .	do . . .	1.430-5.720 ^a	All	None . .	do	do ^e	
Municipalities	S	do	do . . .	1.25-5 ^a	All	do	do	do ^c	
School districts (county-wide)	S	do	do . . .	9.180 ^a	All	All	do	do ^c	
Wisconsin:									
Counties ^a	S	Specific . .	Rate . . .	10 ^{b,c} . . .	General . .	All	Few . . .	None . . .	^a The percentage increase in general purpose levies of all taxing jurisdictions may not exceed the percentage increase in equalized full value of all taxable property in the State. The Department of Revenue may adjust the
Municipalities ^a	S	do	do . . .	35 ^d	do	All	Few	do	
School districts (no limitations) ^e									

See footnotes at end of table.

APPENDIX B

STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1976 (Cont'd)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation ¹	Scope ²	Method ³	Number of mills ⁴	Coverage ⁵	Debt service exclusion ⁶	Specified purpose levies ⁷	Approved increases ⁸	
Wisconsin (Continued)									
Towns ^a	S	.. do	do	10 ^c	General	All	Few	do	levy limit for any jurisdiction for several areas of increased cost or reduced revenues, including population growth greater than the State average, assumption of new functions or services, and other reasons. ^b Of equalized value. For all other localities rates are based on assessed value. ^c Except that counties containing only one town, and the towns in such counties, are allowed a 15-mill limit. ^d Except a limit of only 11 mills for Milwaukee; municipalities including Milwaukee, which operate schools are allowed additional rates for school purposes. ^e School district limits repealed by 1967 legislation.
Villages ^a	S	.. do	do	20	do	All	Few	do	
Wyoming:									
Counties	C-S	Overall	Rate	12 ^a	All	All	None	Voted	^a Of which 3 mills are for county schools. In addition, counties must levy a 12 mill levy for schools. ^b 3 additional mills may be voted by the electorate.
Municipalities	C	.. do	do	8	All	All	do	do	
School districts	S	.. do	do	25 ^{a,b}	All	All	do	do	

¹The citation for the limitations is either the State's constitution (C), statutes (S), or both (C-S).

²The scope of the limitations is either overall (all taxing units) or specific (applicable only to a particular class of local government).

³The rate limitation method is commonly used by States. Some States now use both rate limitations and other methods (e.g., budgetary control) listed in the "Remarks" column.

⁴The rate limitations listed here are shown as a number of mills per dollar of assessed valuation. 1 mill is the equivalent of \$1 per \$1,000 or 10 cents per \$100 of assessed valuation. Per capita limitations and other forms are shown in the "Remarks" column.

⁵Typically the rate limitations apply to general purposes (usually signifying current expense levies, general revenue levies, corporate levies, and the like). The "all" designation, where applicable, includes all purposes except as noted in the column headed "Provisions for exceeding limits—specified purpose levies."

⁶The exclusion of debt service from the limitations may be partial or complete (listed here as "all"). Partial exclusions are explained in the "Remarks" column. The designation "none" in this column indicates that debt service is included within the limitations.

⁷For those taxing units with only general purpose coverage of the limitations, an entry in this column shows the relative degree to which additional tax levies for special purposes are provided: few, several, and numerous, ranging from only 1 to many.

⁸Entries in this column indicate whether local jurisdictions are authorized to exceed the general limitations by referendum (voted), or by some other means as noted in the "Remarks" column.

Note: This tabulation presents data pertaining to State-imposed property tax limitations on counties, municipalities, and school districts in effect as of mid-1976. In some instances the available data also permit the listing of property tax restrictions on other classes of local units and special districts.

Source: ACIR Staff with the help of State Attorneys General and other State Officials.

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what is ACIR ?

The Advisory Commission on Intergovernmental Relations (ACIR) was created by the Congress in 1959 to monitor the operation of the American federal system and to recommend improvements. ACIR is a permanent national bipartisan body representing the executive and legislative branches of Federal, state, and local government and the public.

The Commission is composed of 26 members—nine representing the Federal government, 14 representing state and local government, and three representing the public. The President appoints 20—three private citizens and three Federal executive officials directly and four governors, three state legislators, four mayors, and three elected county officials from slates nominated by the National Governors' Conference, the Council of State Governments, the National League of Cities/U.S. Conference of Mayors, and the National Association of Counties. The three Senators are chosen by the President of the Senate and the three Congressmen by the Speaker of the House.

Each Commission member serves a two year term and may be reappointed.

As a continuing body, the Commission approaches its work by addressing itself to specific issues and problems, the resolution of which would produce improved cooperation among the levels of government and more effective functioning of the federal system. In addition to dealing with the all important functional and structural relationships among the various governments, the Commission has also extensively studied critical stresses currently being placed on traditional governmental taxing practices. One of the long range efforts of the Commission has been to seek ways to improve Federal, state, and local governmental taxing practices and policies to achieve equitable allocation of resources, increased efficiency in collection and administration, and reduced compliance burdens upon the taxpayers.

Studies undertaken by the Commission have dealt with subjects as diverse as transportation and as specific as state taxation of out-of-state depositories; as wide ranging as substate regionalism to the more specialized issue of local revenue diversification. In selecting items for the work program, the Commission considers the relative importance and urgency of the problem, its manageability from the point of view of finances and staff available to ACIR and the extent to which the Commission can make a fruitful contribution toward the solution of the problem.

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