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AESTRACT

This report is the first response to President Nixon's request to the Commission for an evaluation of the proposed replacement of school property taxes by a Federal value added tax. The report findings reveal that a federal program to bring tax relief is neither necessary nor desirable, and the Commission suggests that the States assume a greater share of public education financing to relieve intrastate disparities in public education finance. Additionally, the Commission urges property tax reform in lieu of property tax replacement through a Federal value added tax. (JF)

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the report in brief

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financing schools and property tax relief— a state responsibility

A 001 919

Advisory Commission on Intergovernmental Relations

JANUARY 1973

Washington, D. C. 20575

A-40

ERIC

THE WHITE HOUSE

WASHINGTON

January 20, 1972

Dear Bob:

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

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

In particular, I would like the Commission to examine:

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

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

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

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

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

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

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

Sincerely,

Richard Nixon

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

ERIC

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

December 27, 1972

Dear Mr. President:

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

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

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

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

Several additional Commission conclusions warrant special attention.

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

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

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

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

Robert E. Merriam
Chairman

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PREFACE

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

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

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

The full policy report, including all the analytical information in support of the findings and policy conclusions, will be published in the near future. In addition, the Commission will also issue two information reports covering the value-added tax and alternative Federal revenue sources and recent State progress in strengthening the property tax.

Robert E. Merriam
Chairman

chapter I

policy considerations and recommendations

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

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

Criteria For National Government Involvement

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

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

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

> The Congress is now dangling almost 500 large and small conditional aid carrots collectively worth more than $25 billion a year before State and local governments. The hope was that each conditional aid would provide sufficient financial incentive to spur the States and localities on to greater action in some more or less narrowly defined field of "National interest." But there is overwhelming evidence that State and local governments

cannot readily absorb such a large number of diverse programs over restricted periods of time.

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

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

Determination of National Interest—Two Tests

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

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

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

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

The Major Property Tax Relief Issue

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

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

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

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

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

This negative conclusion is based on the following findings.

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

every homeowner in the nation.* The simplest illustration of this lack of evidence to support general property tax reduction is that use of the property tax ranges in intensity from $39 per capita in Alabama to $262 per capita in California.

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

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

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

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

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

The prospect for State-financed property tax relief is not entirely bleak. For example, late in 1972 California enacted a $1.3 billion property tax relief-school finance reform program financed in part with Federal revenue sharing funds and in part through more intensive use of non-property taxes. Governors in ten other States were reported to favor the use of revenue sharing funds for property tax relief.

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

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

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

Limited Property Tax Relief Issue

This Commission considered a proposal for the National Government to provide an incentive grant to the

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

States designed to encourage them to provide limited property tax relief to low-income homeowners and renters.

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

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

Given a few more years, there is reason to believe that the States will resolve the problem of property tax overburden especially for the low-income elderly. This rather optimistic assessment rests on the fact that the "circuit-breaker" idea has such basic popular appeal that it should be adopted in those States where it is most needed in a relatively short period of time. Over the last few years, 14 States and the Canadian Province of Ontario have enacted programs designed to shield low-income elderly homeowners and, in many cases, renters from property tax overload situations.

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

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

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

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

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

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

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

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

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

In my view, a restricted national program that encourages the States to improve property tax administration while helping lighten excessive taxes on qualified low-income renters and homeowners is necessary. To the extent that the final recommendations foreclose the search for an appropriate Federal remedy, they compel my strong dissent.

* Senator Percy submitted the following statement:

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

On reviewing the decisions of the Commission, I wish to express my regret that the Commission did not accept

a somewhat more expanded view of the role of the Federal Government in encouraging the States to implement programs of property tax reform and relief.

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

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

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

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

The Property Tax Assessment Reform Issue

Those who are most familiar with the operations of the property tax suggest that one reason for its unpopularity with the public is the widespread feeling that the tax is not administered fairly. Put another way, inequitable assessments tend to increase public disenchantment with the property tax because they result in random and unwarranted tax burden differentials. Moreover, poor assessment practices lead to taxpayer confusion about, and distrust of, the property tax system.

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

1. The prevailing joint State-local system for administering the property tax can work with a reasonable degree of effectiveness only if the State tax department is given sufficient executive support, legal authority, and professional stature to insure local compliance with State law calling for uniformity of tax treatment.
2. Professionalization of the assessment function can be achieved only if the assessor is selected on the basis of demonstrated ability to appraise property.
3. The perennial conflict between State law calling for full value assessment and the local practice of fractional assessment can be resolved most expeditiously by permitting local assessment officials to assess at any uniform percentage of current market value above a specified minimum level provided this policy is reinforced with two important safeguards:
   a. A full disclosure policy, requiring the State tax department to make annual assessment ratio studies and to give property owners a full report on the fractional valuation policy adopted by county assessors, and
   b. An appeal provision specifically to authorize the introduction of State assessment ratio data by the taxpayer as evidence in appeals to review agencies on the issue of whether his assessment in inequitable.

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

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

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

The Commission considered, but turned down, the possibility of a small Federal categorical grant to

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

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

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

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

Intrastate School Finance Equalization

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

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

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

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

The States have plenary powers in the education field and they also have an overriding self-interest in adequate provision of this single most costly State-local function. States have at least four options in responding to any court decision invalidating a school finance system that

* See statements by Senators Muskie and Percy and Governor Kneip in footnote on page 4.

relies too heavily on the local school property tax. They can reorganize their school districts to make each local district more in the image of the State as a whole. They can mandate a uniform school property tax rate the proceeds of which could be used to equalize financial capacity among districts. They could enact State property or non-property taxes the proceeds of which could be used to equalize local fiscal capacity. They could finance schools from non-property tax sources as does Hawaii. The States alone have the capacity to take any or all of these options should the need arise as a result of court action. Thus, Federal intervention is not a prerequisite to State solution of the intrastate school finance disparities issue.

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

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

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

Summing Up

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

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

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

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

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

FOOTNOTES

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

[2] ACIR, *The Role of the States in Strengthening the Property Tax*, A-17, June 1963, Vol. 1, Chapter 2.

chapter II

property taxation—

scope and summary of findings

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

Three Beneficial Effects

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

Scope Of Analysis

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

property tax *relief*. Three considerations are responsible for the approach taken here.

1. On January 20, 1972, the President asked the Advisory Commission on Intergovernmental Relations to undertake a study of a proposal that would use new Federal revenue to replace a substantial portion of the present residential property tax and thus provide property tax relief.

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

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

Summary Of Major Findings

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

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

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

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

3. In spite of growing more slowly than State sales and income taxes, the residential property tax has grown faster than the value of the average residence or the income of the average household. In short, there has been a steady increase in residential property tax burdens, whether measured by value or by household income. Between 1958 and 1971 the effective property tax rate in relation to the average value of a home rose from 1.3 percent to 2.0 percent. In other words, when the average family in 1958 owned a house valued at $13,000, it was paying about $175 in property taxes; the same family in 1971, owning a house worth $19,500, paid about $385 to the property tax collector. The average family with a $5,000 income in 1953 paid about $110 (2.2 percent of income) in property taxes, while the average family, which now earns about $12,000, pays a little over $400 (3.4 percent of income) in residential real estate taxes. *(See Table 7)*

4. When compared to the property tax burden borne by the average family, the property tax load carried by

poor householders must be characterized as excessive. In 1970, the average homeowner with an income of approximately $10,000 turned over about $340 (3.4 percent) of his total money income to the residential property tax collector. In striking contrast, over 6 million elderly homeowners paid an average of 8.1 percent of their income in property taxes. The property tax collector took an average 16.6 percent of household income from all 1.7 million homeowners with incomes of less than $2,000. It was much worse in the high-tax Northeast region, where these low income homeowners paid more than 30 percent of their meager income in property taxes. *(See Tables 2-4)*

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

5. **The States are beginning to take action to relieve extreme property tax burdens, especially the overburdens of the elderly.** Fourteen States have already enacted circuit breaker property tax relief programs for low income homeowners and some of these programs provide relief for renters. Significantly, nine of these States are among the States with the heaviest residential property tax burden. *(See Tables 5-6)*

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

The property tax is particularly burdensome in large urban centers. In 28 SMSA's containing almost three-fourths of the population in the 50 largest SMSA's, residential property tax loads exceed 2 percent of market value and in 10 of these metropolitan areas they have risen above the 2.5 percent level. *(See Table 8)*

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

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

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

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

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

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

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

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

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

chapter III

intrastate school finance equalization—

scope and summary of findings

The principle that the quality of a student's public elementary, and secondary education should not be dependent on the wealth of his parents and neighbors stands out as a sound objective of public school finance policy on reasonableness and equity grounds. The principle is implicit in State school equalization laws. It was made explicit in the case of *Serrano* v. *Priest* by the California State Supreme Court in August 1971 and by other courts subsequently.

Scope Of Analysis

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

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

Previous Commission Studies

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

> In order to create a financial environment more conducive to attainment of equality of educational opportunity and to remove the massive and growing pressure of the school tax on owners of local property, the Commission recommends that each State adopt as a basic objective of its long-range State-local fiscal policy the assumption by the State of substantially all fiscal responsibility for

financing local schools with opportunity for financial enrichment at the local level and assurance of retention of appropriate local policymaking authority.[1]

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

Summary Of Major Findings

1. A major Federal educational aid program to help States finance the costs of equalizing per pupil spending within each State cannot be justified on the grounds that States confront insurmountable fiscal burdens. Our analysis reveals that only a few States would experience fiscal difficulty in bringing per pupil expenditures to the relatively high levels needed to comply with the "no wealth" principle enunciated first in the *Serrano* case. The great majority of States have the necessary untapped relative tax potential. New York, Vermont and Wisconsin, however, stand out as the States that would experience greatest fiscal difficulty because of their current heavy use of all State and local taxes. *(See Tables 9-10)*

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

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

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

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

The cost to the States of overcoming a great portion of the impact of local fiscal disparities does not seem large when the full revenue potential of the States is considered. Raising the minimum per-pupil expenditure to the 90th percentile level would cost about $6.9 billion and draw down 27.4 percent of the estimated untapped State-local tax capacity — less in some States and more in others, of course. *(See Table 11)*

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

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

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

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

in the 1941-42 school year to about 16,000 in the 1971-72 school year.

If schools get no more than their present share of the budget in most States over the next decade, they can do much to make their existing equalization efforts more effective. Lower rates of growth in school enrollment will free-up school funds for redistribution in an equalizing fashion.

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

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

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

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

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

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

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

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

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

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

Even if the Supreme Court overturns the *Rodriguez* decision, *Serrano*-type litigation has so dramatized the existence of intrastate school finance disparities that State political leaders will hereafter be under constant pressure to improve the States' distribution of school funds. If the Supreme Court sustains *Rodriguez*, this act will spur corrective State action.

4. Congress has not given explicit recognition to the relative financial ability of local school districts in

Federal education aid legislation as a general rule, although it has incorporated provisions to equalize among States in some aid programs. Where a Federal school aid program has affected intrastate school finance disparities, the influence has been at best a secondary concern or an unintended effect.

The Federal Government has heretofore followed a "hands off" policy with respect to the division of fiscal responsibility between a State and its local school districts. This neutrality policy has rested on the belief that the hammering out of the details of the State-local financial partnership in the school finance area is an "internal" matter that should be resolved by each State.

FOOTNOTES

[1] ACIR, *State Aid to Local Government*, (Washington: GPO, 1969) P. 14.

[2] *Report of the New York State Commission on the Quality, Cost, and Financing of Elementary and Secondary Education* (New York: The Commission, 1972), p. 213.

[3] Bendixsen, Marian. *In Search of Equality: School Finance Revisited* (Washington: National Committee for the Support of the Public Schools, 1972), p. 41.

SELECTED TABLES

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

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

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

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

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

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

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

6 Commercial and industrial real estate other than public utilities.

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

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

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

Source: ACIR compilation.

TABLE 2—REAL ESTATE TAXES AS A PERCENTAGE OF FAMILY INCOME, OWNER-OCCUPIED SINGLE-FAMILY HOMES, BY INCOME CLASS AND BY REGION, 1970

Family income[1]	United States Total	North-east Region	North-central Region	South Region	West Region	Exhibit: No. and distribution of homeowners	
						No. (000)	% dist.[2]
Less than $2,000	16.6	30.8	18.0	8.2	22.9	1,718.8	5.5
$2,000 - 2,900	9.7	15.7	9.8	5.2	12.5	1,288.7	9.7
3,000 - 3,900	7.7	13.1	7.7	4.3	8.7	1,397.8	14.1
4,000 - 4,999	6.4	9.8	6.7	3.4	8.0	1,342.8	18.5
5,000 - 5,999	5.5	9.3	5.7	2.9	6.5	1,365.1	22.8
6,000 - 6,999	4.7	7.1	4.9	2.5	5.9	1,530.1	27.8
7,000 - 9,999	4.2	6.2	4.2	2.2	5.0	5,377.4	45.0
10,000 - 14,999	3.7	5.3	3.6	2.0	4.0	8,910.3	73.6
15,000 - 24,999	3.3	4.6	3.1	2.0	3.4	6,365.6	94.0
25,000 or more	2.9	3.9	2.7	1.7	2.9	1,876.9	100.00
All incomes	4.9[3]	6.9[3]	5.1[3]	2.9[3]	5.4[3]	31,144.7	

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

[2] Cumulated from lowest income class.

[3] Arithmetic mean.

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

TABLE 3--REAL ESTATE TAXES AS A PERCENTAGE OF FAMILY INCOME, OWNER-OCCUPIED SINGLE-FAMILY HOMES, HOMEOWNERS AGE 65 AND OVER, BY INCOME CLASS AND BY REGION, 1970

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

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

[2] Cumulated from lowest family income class.

[3] Arithmetic mean.

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

TABLE 4—REAL ESTATE TAXES AS A PERCENTAGE OF FAMILY INCOME FOR ELDERLY AND NON-ELDERLY SINGLE-FAMILY HOMEOWNERS, BY INCOME CLASS, 1970

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

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

[2] Arithmetic mean.

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

TABLE 5—ESTIMATED COST OF STATE "CIRCUIT-BREAKER" SYSTEMS TO REBATE TO RENTERS AND HOMEOWNERS THEIR RESIDENTIAL PROPERTY TAXES IN EXCESS OF VARIOUS PERCENTAGES OF HOUSEHOLD INCOME, 1970[1]

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

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

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

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

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

TABLE 6—ESTIMATED DISTRIBUTION, BY INCOME CLASS, OF THE BENEFITS OF STATE "CIRCUIT-BREAKER" SYSTEMS TO REBATE TO RENTERS AND HOMEOWNERS THEIR RESIDENTIAL PROPERTY TAXES IN EXCESS OF SEVEN PERCENT OF HOUSEHOLD INCOME, 1970[1]

Income class[2]	Total		Age 65 or Over		Under Age 65		Exhibit—					
	No. with est. real estate tax in excess of 7% of income (000)	Estimated cost of "circuit breaker" ($000,000)	No. with est. real estate tax in excess of 7% of income (000)	Estimated cost of "circuit breaker" ($000,000)	No. with est. real estate tax in excess of 7% of income (000)	Estimated cost of "circuit breaker" ($000,000)	Total no. of homeowners & renters by income class (000)		Total no. of homeowners & renters age 65 & over by income class (000)		Total no. of homeowners & renters under age 65 by income class (000)	
							Number	% receiving rebate	Number	% receiving rebate	Number	% receiving rebate
Less than $3,000	6,505	714.4	3,124	395.5	3,381	318.9	8,437	77.1	4,352	71.8	4,085	82.8
$3,000 to $4,999	2,762	382.6	971	175.7	1,791	206.9	6,090	45.4	2,121	45.8	3,969	45.1
$5,000 to $6,999	1,526	245.9	349	78.2	1,177	167.7	6,354	24.0	1,181	29.6	5,173	22.8
$7,000 to $9,999	1,209	263.5	183	46.6	1,026	216.9	9,775	12.4	1,013	18.1	8,762	11.7
$10,000 to $14,999	1,018	228.5	87	22.2	931	206.3	12,672	8.0	783	11.1	11,889	7.8
$15,000 to $24,999	407	117.3	32	10.5	375	106.8	7,908	5.1	455	7.0	7,453	5.0
$25,000 or more	93	59.8	8	9.6	85	50.2	2,240	4.2	238	3.4	2,002	4.2
Total	13,520	2,012.0	4,754	738.3	8,766	1,273.7	53,476	25.3	10,142	46.9	43,334	20.2

[1] Assumes that all fifty states and the District of Columbia adopted such a plan. For renters, the property tax equivalent amount is assumed to be 25 percent of gross rent. Homeowner coverage is limited to one-unit owner-occupied nonfarm properties; one-family homes on 10 acres or more excluded for renters.

[2] Census definition of income (income from all sources).

Source: ACIR staff estimates based on special tabulations provided by the U.S. Bureau of the Census from the *1970 Residential Finance Survey* and the *1970 Decennial Census* Sixth Count for renters.

TABLE 7—AVERAGE EFFECTIVE PROPERTY TAX RATES, EXISTING SINGLE-FAMILY HOMES WITH FHA INSURED MORTGAGES, BY STATE AND REGION, SELECTED YEARS 1958-1971[1]

State and Region	1971	1966	1962	1958
United States	1.98	1.70	1.53	1.34
New England				
Maine	2.43	2.17	1.81	1.58
New Hampshire	3.14	2.38	2.03	1.81
Vermont	2.53	2.27	2.10	1.63
Massachusetts	3.13	2.76	2.47	2.21
Rhode Island	2.21	1.96	1.93	1.67
Connecticut	2.38	2.01	1.75	1.44
Mideast				
New York	2.72	2.40	2.23	2.09
New Jersey	3.01	2.57	2.22	1.77
Pennsylvania	2.16	1.88	1.75	1.50
Delaware	1.26	1.14	.91	.71
Maryland	2.24	2.05	1.74	1.47
Dist. of Columbia	1.80	1.37	1.18	1.08
Great Lakes				
Michigan	2.02	1.81	1.76	1.45
Ohio	1.47	1.44	1.24	1.07
Indiana	1.96	1.64	.96	.84
Illinois	2.15	1.96	1.79	1.35
Wisconsin	3.01	2.31	2.24	1.82
Plains				
Minnesota	2.05	2.14	1.79	1.57
Iowa	2.63	2.12	1.66	1.34
Missouri	1.79	1.64	1.36	1.12
North Dakota	2.08	1.81	1.70	1.54
South Dakota	2.71	2.64	2.31	2.01
Nebraska	3.15	2.67	1.84	1.90
Kansas	2.17	1.96	1.92	1.65
Southeast				
Virginia	1.32	1.13	1.03	.90
West Virginia	.69	.71	.79	.56
Kentucky	1.27	1.03	.94	.93
Tennessee	1.53	1.37	1.18	.97
North Carolina	1.58	1.31	1.17	.90
South Carolina	.94	.60	.53	.48
Georgia	1.44	1.30	.94	.84
Florida	1.41	1.09	.66	.76
Alabama	.85	.66	.52	.56
Mississippi	.96	.93	.76	.66
Louisiana	.56	.43	.49	.52
Arkansas	1.14	1.09	1.09	.84
Southwest				
Oklahoma	1.35	1.11	.86	.86
Texas	1.91	1.62	1.44	1.36
New Mexico	1.70	1.30	.98	.93
Arizona	1.65	2.41	2.27	2.14
Rocky Mountain				
Montana	2.19	1.70	1.58	1.32
Idaho	1.72	1.23	1.13	1.14
Wyoming	1.38	1.34	1.27	1.17
Colorado	2.45	2.20	1.85	1.72
Utah	1.49	1.52	1.31	1.05
Far West				
Washington	1.62	1.14	1.12	.92
Oregon	2.33	1.98	1.83	1.55
Nevada	1.48	1.47	1.31	1.06
California	2.48	2.03	1.71	1.50
Alaska	1.61	1.42	1.24	1.12
Hawaii	.92	.81	.77	.62

—continued next column—

[1] Effective tax rate is the percentage that tax liability is of the market or true value of the house.

Source: Computed by ACIR staff from data contained in U.S. Department of Housing and Urban Development, Federal Housing Administration, Statistics Section, *Data for States and Selected Areas on Characteristics of FHA Operations Under Section 203*; 1971 data from unpublished FHA tabulations.

TABLE 8—AVERAGE EFFECTIVE PROPERTY TAX RATES, EXISTING SINGLE-FAMILY HOMES WITH FHA INSURED MORTGAGES, 50 LARGEST SMSA'S, BY REGION, SELECTED YEARS, 1958-1971[1]

Standard metropolitan statistical area & region	1971	1966	1962	1958
Median of 50 SMSA's	2.13	1.95	1.71	1.42
New England				
Boston	3.21	2.70	2.46	2.24
Hartford	2.88	2.22	1.96	1.55
Providence	2.34	2.04	2.01	1.72
Mideast				
Albany	2.45	2.44	2.55	2.13
Baltimore	2.25	2.37	1.96	1.59
Buffalo	2.24	2.70	2.31	1.82
New York	2.68	2.49	2.26	2.10*
Newark	2.93	2.63	2.21	**
Paterson	2.53	2.30	2.02	**
Philadelphia	3.08	2.47	2.20	1.70
Pittsburgh	2.46	1.83	1.57	1.42
Rochester	2.72	2.13	1.95	1.66
Washington, D.C.	1.93	1.63	1.34	1.24
Great Lakes				
Akron	1.62	1.58	1.32	1.20
Chicago	2.16	2.02	1.95	1.39
Cincinnati	1.52	1.60	1.35	1.11
Cleveland	1.88	1.62	1.39	1.23
Columbus	1.53	1.33	1.11	0.86
Dayton	1.38	1.51	1.32	1.09
Detroit	2.03	1.86	1.87	1.56
Indianapolis	2.29	2.10	1.06	0.84
Milwaukee	3.52	2.71	2.62	1.93
Toledo	1.30	1.37	1.19	0.95
Plains				
Kansas City	1.76	1.58	1.35	1.16
Minneapolis	2.08	2.16	1.82	1.67
Plains—continued				
St. Louis	2.09	1.82	1.51	1.14
Southeast				
Atlanta	1.52	1.50	1.04	0.97
Birmingham	0.98	0.84	0.68	0.66
Louisville	1.29	1.09	1.03	1.01
Memphis	1.98	1.80	1.61	1.05
Miami	1.40	1.25	0.62	0.73
New Orleans	0.48	0.38	0.55	0.53
Norfolk	1.13	0.95	0.99	0.96
Tampa	1.50	1.04	0.82	0.98
Southwest				
Dallas	1.83	1.43	1.26	1.27
Ft. Worth	2.21	1.97	1.73	1.70
Houston	1.85	1.67	1.36	1.24
Oklahoma City	1.31	1.11	0.82	0.85
Phoenix	1.62	2.58	2.36	2.18
San Antonio	2.21	1.84	1.86	1.65
Rocky Mountain				
Denver	2.45	2.17	1.86	1.69
Far West				
Anaheim	2.19	1.94	NA	NA
Los Angeles	2.85	2.17	1.71	1.44
Portland, Oregon	2.28	2.01	1.77	1.58
Sacramento	2.44	2.19	1.84	1.65
San Bernardino	2.34	2.00	1.75	1.58
San Diego	1.98	1.98	1.74	1.68
San Francisco	2.76	1.96	1.64	1.53
San Jose	2.61	2.12	1.85	1.62
Seattle	1.82	1.17	1.14	0.91

—continued next column—

NA Data not available

* New York Northeastern New Jersey

** Included in New York–Northeastern New Jersey

[1] Effective tax rate is the percentage that tax liability is of market or true value of the house.

Source: Computed by ACIR staff from U.S. Department of Housing and Urban Development, Federal Housing Administration, Statistics Section, *Data for States and Selected Areas on Characteristics of FHA Operations Under Section 203*; 1971 data from unpublished FHA tabulations.

TABLE 9—THREE ESTIMATES OF EACH STATE'S UNTAPPED TAX CAPACITY, BY STATE AND REGION

(Dollar amounts in millions)

State and region	Actual State-local tax collections 1970-71	Most stringent capacity test[1]			Intermediate capacity test[2]			Least stringent capacity test[3]		
		Potential capacity	Untapped capacity		Potential capacity	Untapped capacity		Potential capacity	Untapped capacity	
			Amount [col.(2)-col.(1)]	% of actual collections		Amount [col.(5)-col.(1)]	% of actual collections		Amount [col.(8)-col.(1)]	% of actual collections
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
United States[4]	$94,541.0	$129,298.7	$34,757.7	36.8	$120,145.6	$25,604.6	27.1	$110,992.6	$16,451.6	17.4
New England	(6,173.6)	(7,557.7)	(1,384.1)	(22.4)	(7,262.7)	(1,089.1)	(17.6)	(6,967.8)	(794.2)	(12.9)
Maine	412.3	508.2	95.9	23.3	488.4	76.1	18.5	468.6	56.3	13.7
New Hampshire	285.9	502.0	216.1	75.6	482.4	196.5	68.7	462.8	176.9	61.9
Vermont	226.8	246.0	19.2	8.5	236.4	9.6	4.2	226.8	-0-	-0-
Massachussetts	3,158.5	3,559.2	400.7	12.7	3,420.2	261.7	8.3	3,281.3	122.8	3.9
Rhode Island	447.3	531.0	83.7	18.7	510.3	63.0	14.1	489.6	42.3	9.5
Connecticut	1,642.8	2,211.3	568.5	34.6	2,125.0	482.2	29.4	2,038.7	395.9	24.1
Mideast	(23,893.8)	(27,340.5)	(3,446.7)	(14.4)	(27,340.5)	(3,446.7)	(14.4)	(27,340.5)	(3,446.7)	(14.4)
New York	12,664.2	12,664.2	-0-	-0-	12,664.2	-0-	-0-	12,664.2	-0-	-0-
New Jersey	3,639.5	4,900.3	1,260.8	34.6	4,900.3	1,260.8	34.6	4,900.3	1,260.8	34.6
Pennsylvania	5,278.7	6,841.3	1,562.6	29.6	6,841.3	1,562.6	29.6	6,841.3	1,562.6	29.6
Delaware	278.7	409.6	130.9	47.0	409.6	130.9	47.0	409.6	130.9	47.0
Maryland	2,032.7	2,525.1	492.4	24.2	2,525.1	492.4	24.2	2,525.1	492.4	24.2
Great Lakes	(18,604.2)	(25,894.1)	(7,289.9)	(39.2)	(25,364.5)	(6,760.3)	(36.3)	(24,834.7)	(6,230.5)	(33.5)
Michigan	4,420.6	6,014.2	1,593.6	36.1	5,891.2	1,470.6	33.3	5,768.3	1,347.7	30.5
Ohio	3,921.8	6,599.0	2,677.2	68.3	6,464.1	2,542.3	64.8	6,329.2	2,407.4	61.4
Indiana	2,118.6	3,058.9	940.3	44.4	2,996.4	877.8	41.4	2,933.8	815.2	38.5
Illinois	5,749.0	7,725.1	1,976.1	34.4	7,567.2	1,818.2	31.6	7,409.2	1,660.2	28.9
Wisconsin	2,394.2	2,496.9	102.7	4.3	2,445.6	51.4	2.2	2,394.2	-0-	-0-
Plains	(7,076.5)	(10,231.2)	(3,154.7)	(44.6)	(9,359.8)	(2,283.3)	(32.3)	(8,488.4)	(1,411.9)	(20.0)
Minnesota	1,931.6	2,327.9	396.3	20.5	2,129.8	198.2	10.3	1,931.6	-0-	-0-
Iowa	1,285.6	1,764.3	478.7	37.2	1,614.0	328.4	25.5	1,463.7	178.1	13.9
Missouri	1,712.5	2,871.8	1,159.3	67.7	2,627.2	914.7	53.4	2,382.5	670.0	39.1
North Dakota	262.2	343.5	81.3	31.0	314.2	52.0	19.8	284.9	22.7	8.7
South Dakota	291.7	372.7	81.0	27.8	341.0	49.3	16.9	309.2	17.5	6.0
Nebraska	652.8	1,012.9	360.1	55.2	926.5	273.7	41.9	840.4	187.6	28.7
Kansas	940.1	1,538.1	598.0	63.6	1,407.1	467.0	49.7	1,276.1	336.0	35.7
Southeast	(14,861.8)	(24,187.0)	(9,325.2)	(62.8)	(20,515.4)	(5,653.6)	(38.0)	(16,843.8)	(1,982.0)	(13.3)
Virginia	1,755.0	2,678.4	923.4	52.6	2,271.8	516.8	29.5	1,865.3	110.3	6.3
West Virginia	585.1	878.0	292.9	50.1	744.8	159.7	27.3	611.5	26.4	4.5
Kentucky	1,038.1	1,697.8	659.7	63.6	1,440.0	401.9	38.7	1,182.3	144.2	13.9
Tennessee	1,204.8	2,029.6	824.8	68.5	1,721.5	516.7	42.9	1,413.4	208.6	17.3

North Carolina	1,730.5	2,678.6	948.1	54.8	2,272.0	541.5	31.3	1,865.4	134.9	7.8
South Carolina	781.6	1,140.5	358.9	45.9	967.4	185.8	23.8	794.2	12.6	1.6
Georgia	1,548.7	2,491.0	942.3	60.8	2,112.9	564.2	36.4	1,734.8	186.1	12.0
Florida	2,637.8	4,731.4	2,093.6	79.4	4,013.2	1,375.4	52.1	3,295.0	657.2	24.9
Alabama	959.2	1,624.3	665.1	69.3	1,377.8	418.6	43.6	1,131.2	172.0	17.9
Mississippi	701.6	1,007.8	306.2	43.6	854.7	153.1	21.8	701.6	-0-	-0-
Louisiana	1,396.5	2,221.7	825.2	59.1	1,884.4	487.9	34.9	1,547.2	150.7	10.8
Arkansas	522.9	1,007.9	485.0	92.8	854.9	332.0	63.5	701.9	179.0	34.2
Southwest	(6,027.9)	(10,776.5)	(4,748.6)	(78.8)	(9,370.9)	(3,343.0)	(55.5)	(7,965.5)	(1,937.6)	(32.1)
Oklahoma	843.0	1,700.0	857.0	101.7	1,478.3	635.3	75.4	1,256.6	413.6	49.1
Texas	3,926.9	7,308.2	3,381.3	86.1	6,355.0	2,428.1	61.8	5,401.9	1,475.0	37.6
New Mexico	402.9	611.4	208.5	51.8	531.6	128.7	31.9	451.9	49.0	12.2
Arizona	855.1	1,156.9	301.8	35.3	1,006.0	150.9	17.7	855.1	-0-	-0-
Rocky Mountain	(2,202.9)	(3,226.9)	(1,024.0)	(46.5)	(2,807.0)	(604.1)	(27.4)	(2,387.2)	(184.3)	(8.4)
Montana	299.3	452.1	152.8	51.1	393.2	93.9	31.4	334.4	35.1	11.7
Idaho	291.9	424.2	132.3	45.3	369.0	77.1	26.4	313.8	21.9	7.5
Wyoming	164.2	300.2	136.0	82.8	261.2	97.0	59.1	222.1	57.9	35.3
Colorado	1,021.6	1,474.7	453.1	44.4	1,282.8	261.2	25.6	1,091.0	69.4	6.8
Utah	425.9	575.7	149.8	35.2	500.8	74.9	17.6	425.9	-0-	-0-
Far West[5]	(15,070.0)	(19,360.3)	(4,290.3)	(28.5)	(17,447.4)	(2,377.4)	(15.8)	(15,534.5)	(464.5)	(3.1)
Washington	1,679.3	2,276.5	597.2	35.6	2,051.6	372.3	22.2	1,826.6	147.3	8.8
Oregon	898.0	1,351.1	453.1	50.5	1,217.6	319.6	35.6	1,084.0	186.0	20.7
Nevada	293.7	529.6	235.9	80.3	477.2	183.5	62.5	424.9	131.2	44.7
California	12,199.0	15,203.1	3,004.1	24.6	13,701.0	1,502.0	12.3	12,199.0	-0-	-0-
Alaska	146.0	191.1	45.1	30.9	168.6	22.6	15.5	146.0	-0-	-0-
Hawaii	484.2	533.4	49.2	10.2	508.8	24.6	5.1	484.2	-0-	-0-

Note: The relative tax effort provides the foundation for estimating a State's untapped relative tax potential. Actual State-local tax collections are compared to three different levels of potential tax collections determined on the grounds that State policymakers will be reluctant to push their State's tax effort beyond that of States competing for economic growth and development.

1 The amount of potential revenue a State could raise if it made the same tax effort as the Nation's highest tax effort State--in this case, New York.

2 The amount of potential revenue a State could raise if it made a tax effort midway between the highest tax effort State in the Nation and the highest tax effort State in its region.

3 The amount of potential revenue a State could raise if it made the same tax effort as the highest tax effort State in its region.

4 Excluding the District of Columbia.

5 Excluding Alaska and Hawaii.

Source: ACIR Staff calculations.

TABLE 10—A MEASURE OF STATE-LOCAL TAX EFFORT—STATE-LOCAL TAXES AS A PERCENTAGE OF STATE PERSONAL INCOME ADJUSTED FOR TOTAL TAX CAPACITY, BY STATE AND REGION

(Dollar amounts in millions)

State and region	Personal income 1970[1] (1)	Ratio of ACIR capacity index to personal income index (1966-67)[2] (2)	Personal income adjusted for "tax capacity" [col.(1) x col.(2)] (3)	Total state-local tax collections, 1970-71 (4)	Relative tax effort (collections as % of adjusted personal income) [col.(4) ÷ col.(3)] (5)
United States[3]	$797,377		$801,085	$94,541.0	11.80
New England					
Maine	3,226	0.976	3,149	412.3	13.09
New Hampshire	2,686	1.158	3,110	285.9	9.19
Vermont	1,541	0.989	1,524	226.8	14.88
Massachusetts	24,750	0.891	22,052	3,158.5	14.32
Rhode Island	3,726	0.883	3,290	447.3	13.60
Connecticut	14,638	0.936	13,701	1,642.8	11.99
Mideast					
New York	86,391	0.908	78,443	12,664.2	16.14
New Jersey	32,930	0.922	30,361	3,639.5	11.99
Pennsylvania	46,579	0.910	42,387	5,278.7	12.45
Delaware	2,394	1.060	2,538	278.7	10.98
Maryland	16,877	0.927	15,645	2,032.7	12.99
Great Lakes					
Michigan	36,785	1.013	37,263	4,420.6	11.86
Ohio	42,501	0.962	40,886	3,921.8	9.59
Indiana	19,721	0.961	18,952	2,118.6	11.18
Illinois	49,961	0.958	47,863	5,749.0	12.01
Wisconsin	16,457	0.940	15,470	2,394.2	15.48
Plains					
Minnesota	14,732	0.979	14,423	1,931.6	13.39
Iowa	10,613	1.030	10,931	1,285.6	11.76
Missouri	17,427	1.021	17,793	1,712.5	9.62
North Dakota	1,897	1.122	2,128	262.2	12.32
South Dakota	2,107	1.096	2,309	291.7	12.63
Nebraska	5,649	1.111	6,276	652.8	10.40
Kansas	8,808	1.082	9,530	940.1	9.86
Southeast					
Virginia	16,986	0.977	16,595	1,755.0	10.58
West Virginia	5,297	1.027	5,440	585.1	10.76
Kentucky	9,990	1.053	10,519	1,038.1	9.87
Tennessee	12,091	1.040	12,575	1,204.8	9.58
North Carolina	16,383	1.013	16,596	1,730.5	10.43
South Carolina	7,614	0.928	7,066	781.6	11.06
Georgia	15,434	1.000	15,434	1,548.7	10.03
Florida	25,077	1.169	29,315	2,637.8	9.00
Alabama	9,925	1.014	10,064	959.2	9.53
Mississippi	5,755	1.085	6,244	701.6	11.24
Louisiana	11,128	1.237	13,765	1,396.5	10.15
Arkansas	5,517	1.132	6,245	522.9	8.37

TABLE 10—A MEASURE OF STATE-LOCAL TAX EFFORT—STATE-LOCAL TAXES AS A PERCENTAGE OF STATE PERSONAL INCOME ADJUSTED FOR TOTAL TAX CAPACITY, BY STATE AND REGION
(Dollar amounts in millions)

State and region	Personal income 1970[1] (1)	Ratio of ACIR capacity index to personal income index (1966-67)[2] (2)	Personal income adjusted for "tax capacity" [col.(1) x col.(2)] (3)	Total state-local tax collections, 1970-71 (4)	Relative tax effort (collections as % of adjusted personal income) [col.(4) ÷ col.(3)] (5)
Southwest					
Oklahoma	8,570	1.229	10,533	843.0	8.00
Texas	40,213	1.126	45,280	3,926.9	8.67
New Mexico	3,183	1.190	3,788	402.9	10.64
Arizona	6,487	1.105	7,168	855.1	11.93
Rocky Mountain					
Montana	2,400	1.167	2,801	299.3	10.69
Idaho	2,340	1.123	2,628	291.9	11.11
Wyoming	1,227	1.516	1,860	164.2	8.83
Colorado	8,523	1.072	9,137	1,021.6	11.18
Utah	3,443	1.036	3,567	425.9	11.94
Far West[4]					
Washington	13,602	1.037	14,105	1,679.3	11.91
Oregon	7,816	1.071	8,371	898.0	10.73
Nevada	2,244	1.462	3,281	293.7	8.34
California	88,863	1.060	94,195	12,199.0	12.95
Alaska	1,399	0.846	1,184	146.0	12.33
Hawaii	3,472	0.952	3,305	484.2	14.65

Note. This table presents each State's tax effort in relation to a measure that reflects all major taxable sources rather than simply resident personal income. ACIR has published two studies on fiscal capacity and tax effort. The most recent publication, *Measuring the Fiscal Capacity and Effort of State and Local Areas*, presents estimates of what State and local governments would collect if they imposed national average tax rates to the various tax bases—property, income, sales—they have and can tax, including such sources as tourism and natural resources. The ratio of this index of tax capacity to an index of personal income as of 1966-67, the latest year for which the comprehensive capacity measure has been prepared, was used to modify State personal income in 1970 to reflect the State's entire relative tax capacity. Actual State-local tax collections for 1970-71 were divided by the amount of the entire relative tax capacity to obtain the State's relative tax effort.

[1] U.S. Department of Commerce, *Survey of Current Business*, August 1972, p. 25.

[2] ACIR Report M-58, pp. 120-121.

[3] Excluding the District of Columbia.

[4] Excluding Alaska and Hawaii.

Source: ACIR Staff.

TABLE 11—COST OF RAISING PER-PUPIL SPENDING IN ALL LOWER SPENDING DISTRICTS TO SPECIFIED PUPIL PERCENTILE SPENDING LEVELS, BY STATES, 1969-70
(In Millions of Dollars)

States	Exhibit: State-local expenditures for local schools	Cost of leveling up per-pupil spending to—				
		90th pupil percentile	80th pupil percentile	70th pupil percentile	60th pupil percentile	50th pupil percentile
United States	$37,301.2[1]	$6,928.8	$4,333.2	$3,095.9	$2,288.2	$1,662.4
Alabama	428.1	44.3	25.2	20.1	14.9	7.0
Alaska	88.3	11.2	9.9	4.5	0.5	0.5
Arizona	347.3	97.1	69.7	48.8	21.0	16.8
Arkansas	233.6	41.0	22.4	18.1	14.7	9.2
California	4,113.7	815.9	455.6	267.7	222.0	186.2
Colorado	400.7	72.9	72.9	50.1	21.2	18.6
Connecticut	616.3	140.6	94.6	71.8	42.7	29.1
Delaware	130.2	32.6	7.8	5.8	3.1	1.7
Florida	1,166.0	127.8	127.8	92.4	51.7	41.7
Georgia	729.3	176.6	65.8	31.1	28.9	20.8
Hawaii	167.8	-0-	-0-	-0-	-0-	-0-
Idaho	111.6	36.2	16.1	16.1	11.0	6.1
Illinois	2,026.7	456.1	342.5	342.5	233.4	126.7
Indiana	947.8	128.9	90.8	84.7	59.4	43.0
Iowa	607.6	94.1	48.3	36.3	29.7	16.4
Kansas	423.8	76.1	30.6	20.2	14.7	14.7
Kentucky	445.4	62.9	62.9	36.0	17.4	12.2
Louisiana	534.8	60.2	33.1	22.2	16.3	15.4
Maine	150.3	26.1	19.3	12.4	9.2	6.9
Maryland	865.0	188.6	33.4	33.4	29.2	18.4
Massachusetts	956.7	259.9	139.0	81.8	63.2	53.6
Michigan	1,922.0	364.4	215.6	150.2	133.5	108.5
Minnesota	920.4	120.6	87.5	67.5	41.9	29.6
Mississippi	282.2	45.7	39.7	25.3	19.4	13.6
Missouri	783.2	121.9	120.6	73.1	56.4	37.1
Montana	130.6	68.4	39.0	22.8	20.2	11.8
Nebraska	265.8	53.8	22.9	14.7	13.6	10.5
Nevada	100.9	8.3	1.4	1.4	0.1	0.1
New Hampshire	107.2	19.3	13.1	9.3	5.1	3.6
New Jersey	1,330.6	317.5	188.9	126.9	87.0	57.1
New Mexico	210.3	26.7	15.4	5.8	3.3	1.1
New York	4,295.7	609.2	331.2	331.2	331.2	296.6
North Carolina	726.1	95.0	50.2	43.2	35.4	25.3
North Dakota	107.6	19.7	16.3	9.6	6.7	6.1
Ohio	1,730.9	518.4	290.5	211.3	161.6	98.6
Oklahoma	363.4	61.9	41.4	27.9	17.0	16.8
Oregon	425.2	62.0	37.9	22.7	18.5	18.5
Pennsylvania	2,147.0	504.7	393.8	210.2	137.7	81.8
Rhode Island	140.8	48.2	19.7	15.4	9.2	6.2
South Carolina	404.0	31.2	22.0	16.9	8.6	8.3
South Dakota	135.7	22.4	12.5	7.0	3.7	3.7
Tennessee	534.2	98.9	72.9	61.8	39.8	19.2
Texas	1,747.4	295.0	168.4	113.2	73.4	57.2
Utah	205.7	12.9	9.2	6.8	1.7	1.3
Vermont	71.4	24.1	15.9	14.0	10.0	6.2
Virginia	777.1	145.1	145.1	78.9	51.4	27.6
Washington	779.9	120.7	91.0	65.9	52.2	35.5
West Virginia	259.9	33.2	18.6	13.9	12.8	5.9
Wisconsin	831.4	101.3	67.3	43.6	28.1	28.1
Wyoming	73.6	29.2	17.5	9.4	4.5	1.5

Note: Costs of leveling-up are based on State reports of school district per pupil expenditures. There has been no attempt to make per pupil expenditure calculations comparable within or among States, and the indicated leveling-up costs are to be considered only rough approximations.

[1] Excluding the District of Columbia.

Source: President's Commission on School Finance, *Review of Existing State School Finance Programs*, Vol. II, with additional analysis by the U.S.O.E.

PROPERTY TAX RELIEF FOR LOW INCOME ELDERLY HOMEOWNERS
GROWING STATE CONCERN

Type of Relief Program		
State Financed (25 States)	State Mandated--locally financed (15 States)	State Authorized--locally financed (6 States)
	Adopted prior to 1971	
Louisiana[1/]	Oklahoma[1/]	Rhode I. (A-1960, L-1972)
Mississippi[1/]	Indiana (A-1957, L-1971)	N. Y. (A-1966, L-1972)
New Jersey (A-1953, L-1972)	Mass. (A-1963, L-1971)	Utah (A-1967, L-1969)
Wisconsin* (A-1964, L-1971)	Georgia (A-1964, L-1972)	N.H. (A-1969, L-1971)
Conn. (A-1965)	Delaware (A-1965, L-1969)	
Michigan (A-1965, L-1970)	Maryland (A-1967, L-1969)	
Calif.* (A-1967, L-1971)	Hawaii (A-1969, L-1972)	
Iowa (A-1967, L-1971)	Idaho (A-1969, L-1972)	
Minn.* (A-1967, L-1971)	Montana (A-1969, L-1971)	
Vermont* (A-1969, L-1971)	N. Dakota (A-1969)	
Kansas* (A-1970, L-1972)		
	Adopted in 1971	
Colorado* (L-1972)	Alabama	Virginia (L-1972)
Florida	Kentucky	
Maine*	North Carolina	
Ohio* (L-1972)	Washington (L-1972)	
Oregon*		
Pennsylvania*		
South Carolina		
	Adopted in 1972	
Alaska	South Dakota	Texas
Illinois*		
Nebraska		
New Mexico*		
Tennessee		
West Virginia*		
	Adopted in 1973	
Arkansas*	---	---

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

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

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

Updated to February 12, 1973--ACIR

WHAT IS ACIR?

The Advisory Commission on Intergovernmental Relations (ACIR) was created by Federal Law in 1959. ACIR is a permanent bipartisan body representing the executive and legislative branches of Federal, State and local government, and the public. It gives continuing attention to the critical areas of friction in Federal-State, Federal-local, interstate and interlocal relations.

Nine of the 26 Commission members represent the Federal Government, 14 represent State and local government, and three the public-at-large. Six are Members of Congress—three Senators appointed by the President of the Senate and three Representatives appointed by the Speaker of the House. The President appoints 20: three private citizens, three Federal executive officials, four governors, three State legislators, four mayors and three elected county officials. State and local members are nominated by the national general government organizations. Of the Members of Congress, two from each House must be of the majority party. Of the State and local officials no more than two of each category may be from the same party. Members are appointed for two year terms and may be reappointed. The Commission names an Executive Director who heads a small professional staff. The Commission selects for investigation specific intergovernmental issues.

In developing its policy recommendations ACIR follows a multi-step procedure that assures review and comment by representatives of all points of view, all affected levels of government, technical experts and interested groups. ACIR then debates each issue and formulates policy positions. Policy recommendations are translated into draft bills and executive orders.

The full report, *Financing Schools and Property Tax Relief—A State Responsibility,* is to be published in Spring of 1973. For information regarding the availability of the full report and an information report on the value-added tax, write to the Advisory Commission on Intergovernmental Relations, Public Finance, Washington, D.C. 20575.

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