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SPEAKING OF TAXES

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WHO WON THE PROPERTY TAX REVOLT?

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Ten years ago California voters overwhelmingly approved Proposition 13, a measure which sharply cut local property taxes and tightly restricted future property tax increases. Proposition 13 was widely heralded as the first salvo in a taxpayers' revolt -- particularly a revolt against rapidly rising property taxes. Property tax cuts were also approved in Idaho (1978) and Massachusetts (1980). However, similar plans to slash property taxes were defeated from 1978 to 1982 in nine states. But four states adopted classified property taxes during this period and two states provided for a rollback in property tax rates when property was reassessed.

Tax and expenditure limitations in other states did not focus specifically on property taxes but, instead, attempted to control taxes and spending by restricting state government revenues or spending to increases in personal income or the rate of inflation. Eight states enacted such limitations from 1978 to 1982.

Are efforts to hold down state revenues consistent with controlling the growth of local property taxes? Perhaps not. To the extent that state tax and spending limitations cut into state funds provided to local governmental units, the result may be to put more pressure on the property tax -- and on local government budgets.

Let's look at what has happened to state and local government revenues over the past twenty years and the role of property taxes in financing local public services.

THE TAX REVOLT AND DECLINING FEDERAL AID

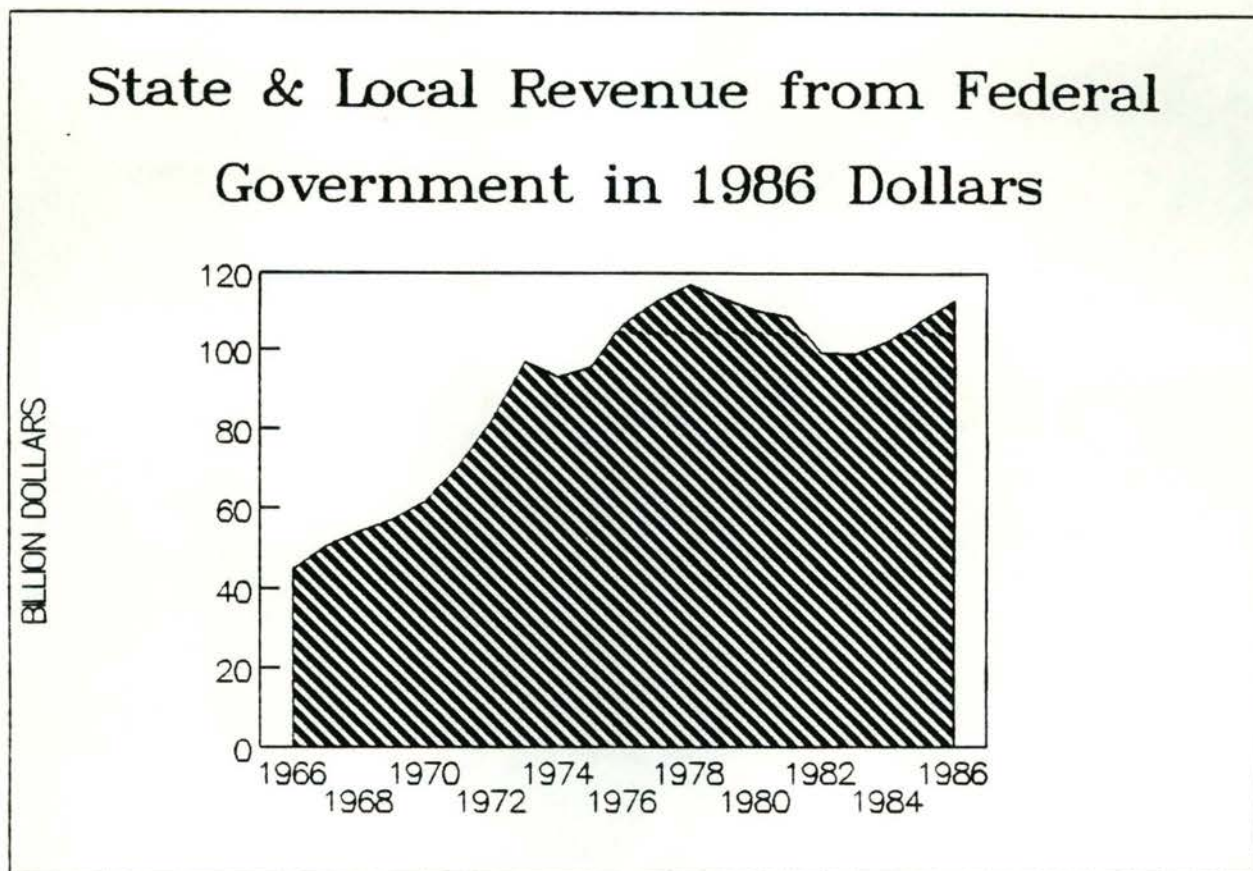
Public concern about what some viewed as runaway state and

local spending reached its peak precisely at the time when federal aid to state and local governments had begun to fall.

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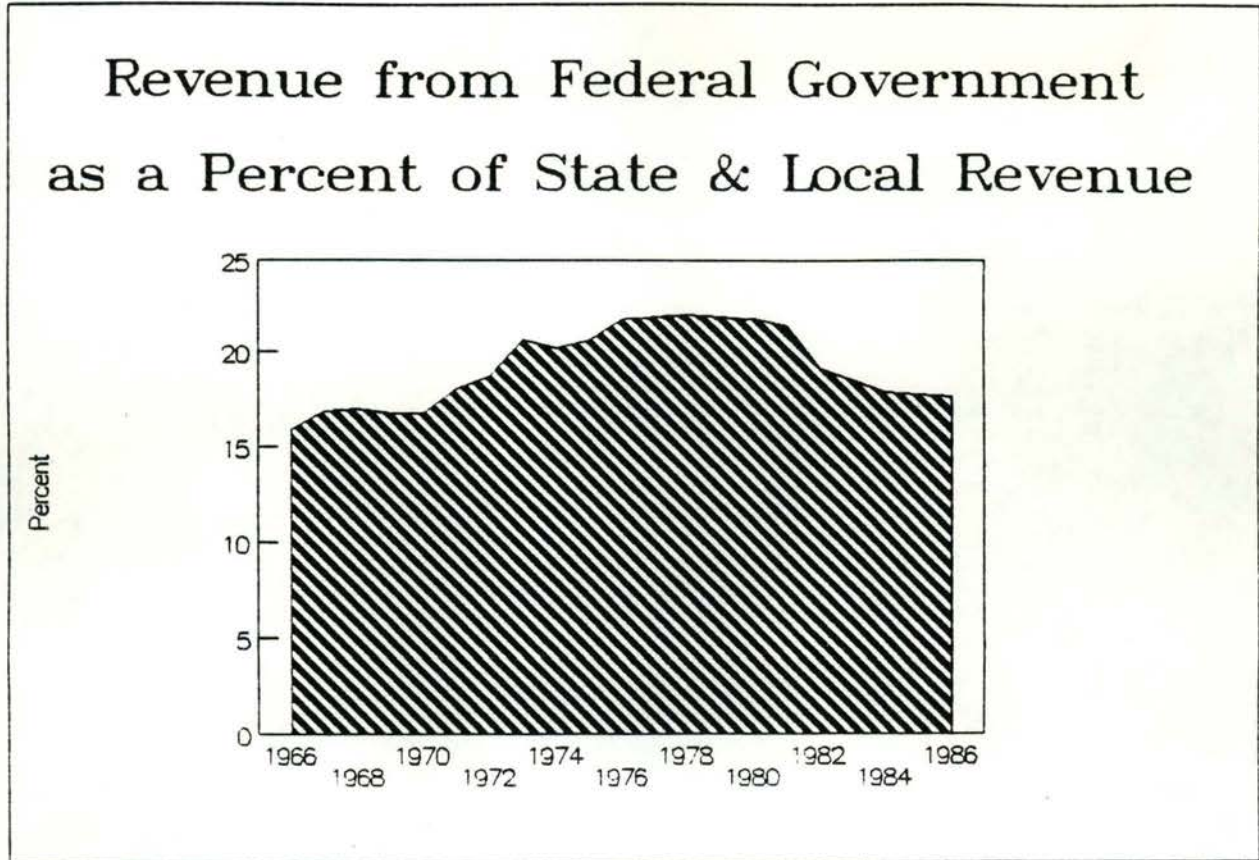
State and local revenue from the federal government climbed rapidly in the 1960s and 1970s. Federal grants-in-aid, measured in constant 1986 dollars, doubled from 1969 to 1978, rising from \$57 billion to \$117 billion (Figure 1). But then federal cuts hit. By 1983, federal aid had dropped to \$99 billion (in 1986 dollars) -- a 15-percent decline.

Figure 1



In 1978, federal aid accounted for 22 percent of all state and local general revenue (Figure 2). By 1983, this figure had fallen to 18.5 percent, and has continued to decline. State and local governments have been forced to assume a larger share of the cost of the public services which they provide.

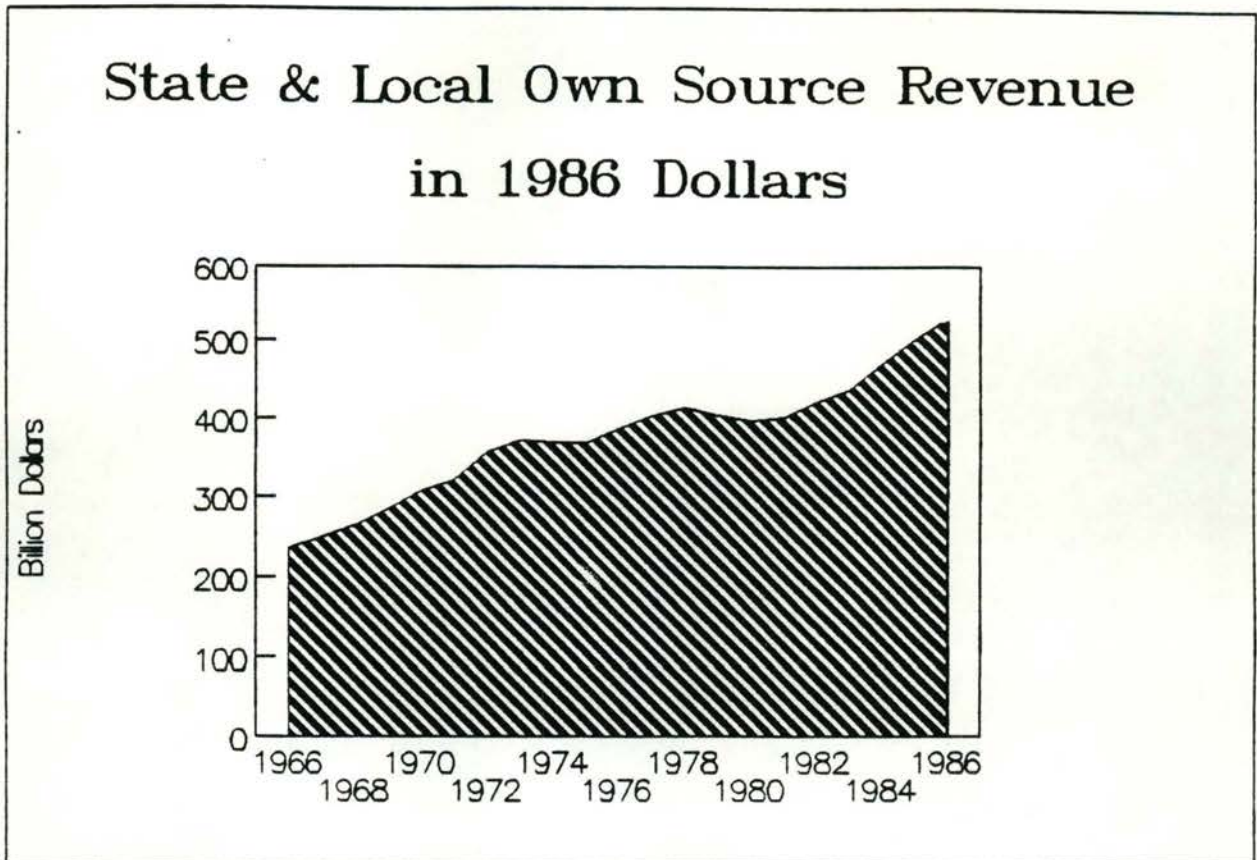
Figure 2



STATES CUT TAXES: 1978-80

Reacting to pressures for tax relief, 32 states reduced their general sales tax or individual income tax in 1978-80. And many states took steps to limit increases in local property taxes. The revenue of state and local governments from their own sources dipped slightly from 1979 to 1980 in real terms (Figure 3). But the decline was short-lived as the states faced declining federal dollars. State and local own source revenue, which includes receipts from both tax and nontax sources, rose from \$398 billion in 1980 (in 1986 dollars) to \$528 billion in 1986. This represents an increase in real terms of 33 percent over a six-year period.

Figure 3

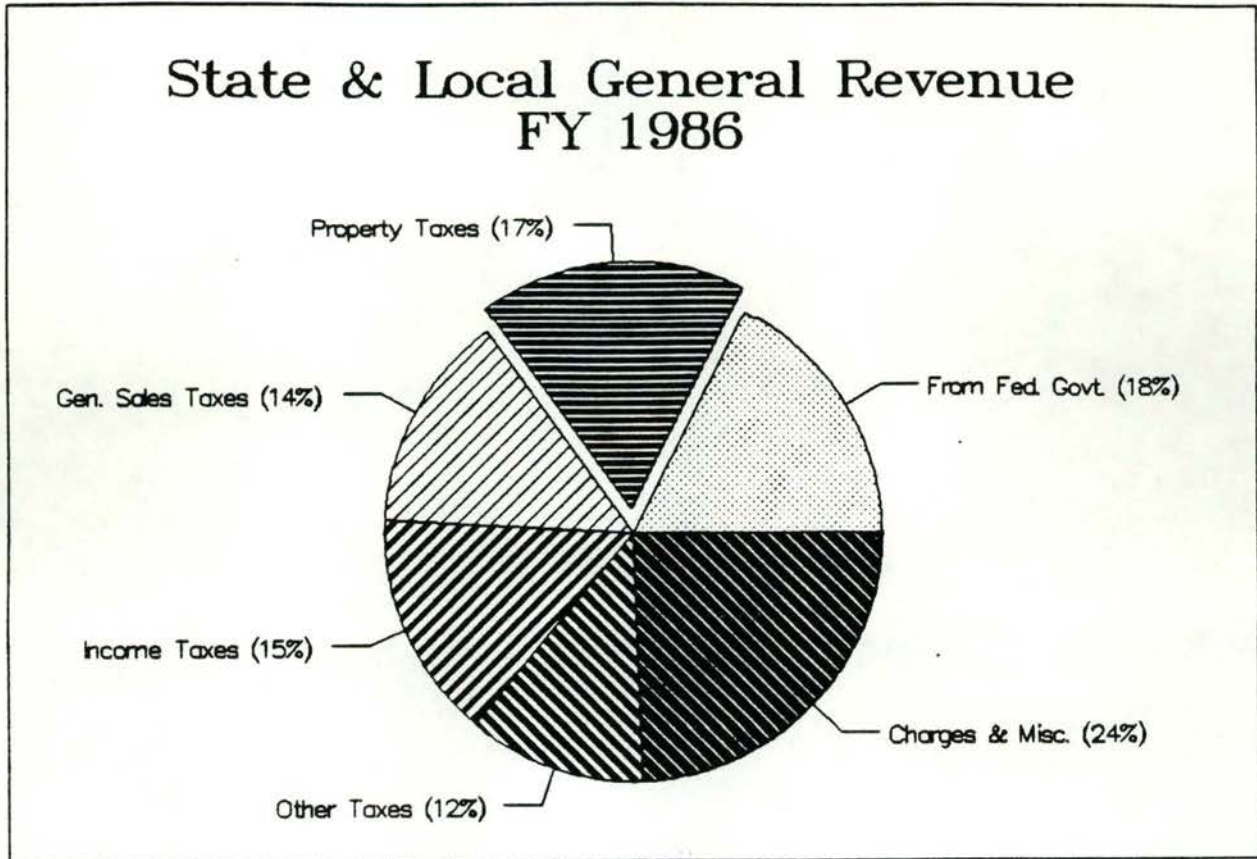


THE ROLE OF THE PROPERTY TAX

For the country as a whole, about 18 percent of all state and local revenue came from the federal government. Charges for public services, interest earnings, and other nontax revenue accounted for 24 percent of the total. By a narrow margin, the property tax remained the most important single source of tax revenue, followed closely by income and general sales taxes.

The major sources of state and local government revenue for FY 1986 are shown in Figure 4.

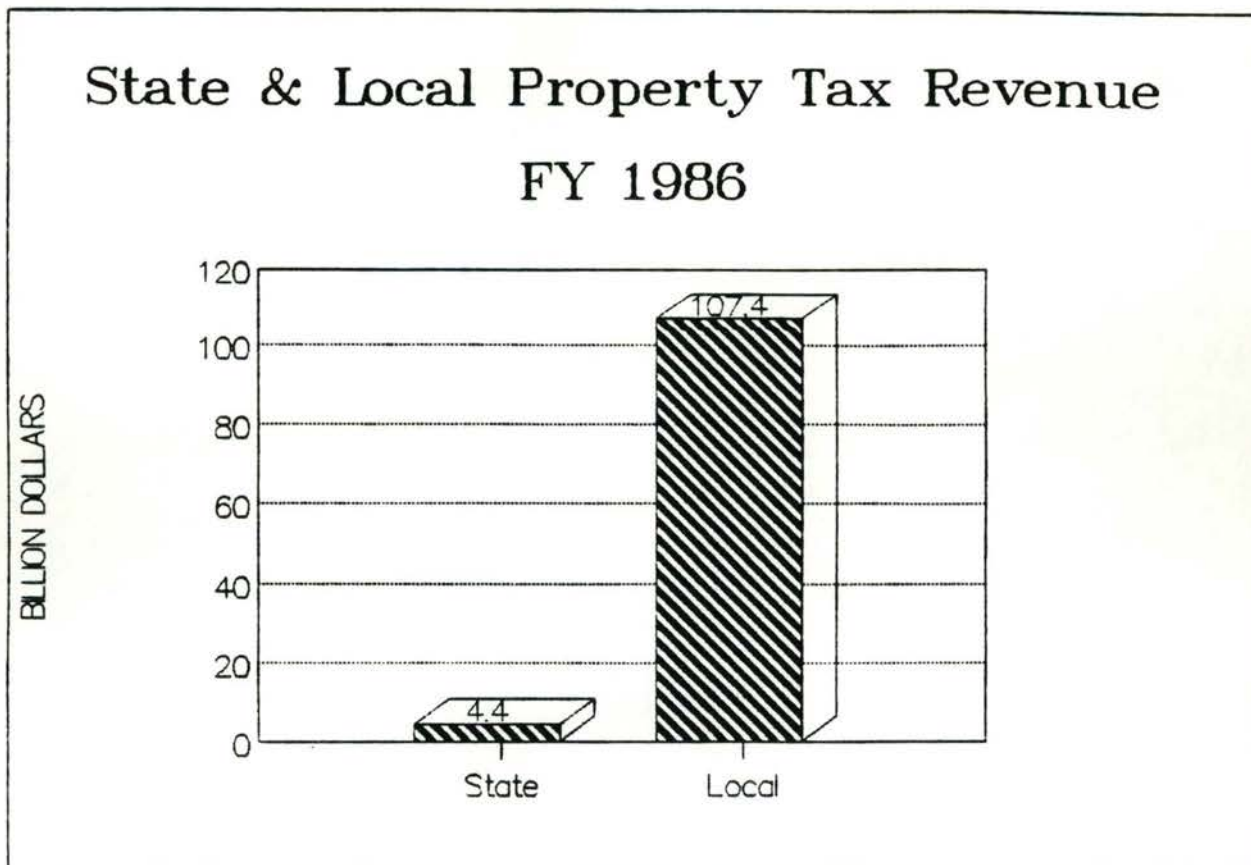
Figure 4



It should be noted that states vary widely with respect to their choice of revenue sources. All states make use of the property tax, but four states (Delaware, Montana, New Hampshire, and Oregon) do not have a general sales tax. And seven states (Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming) do not have an individual income tax.

The property tax is almost exclusively a local tax. Total property tax collections in the United States amounted to \$111.7 billion in FY 1986. The property tax revenue of local units of government accounted for 96.2 percent of this amount (Figure 5).

Figure 5

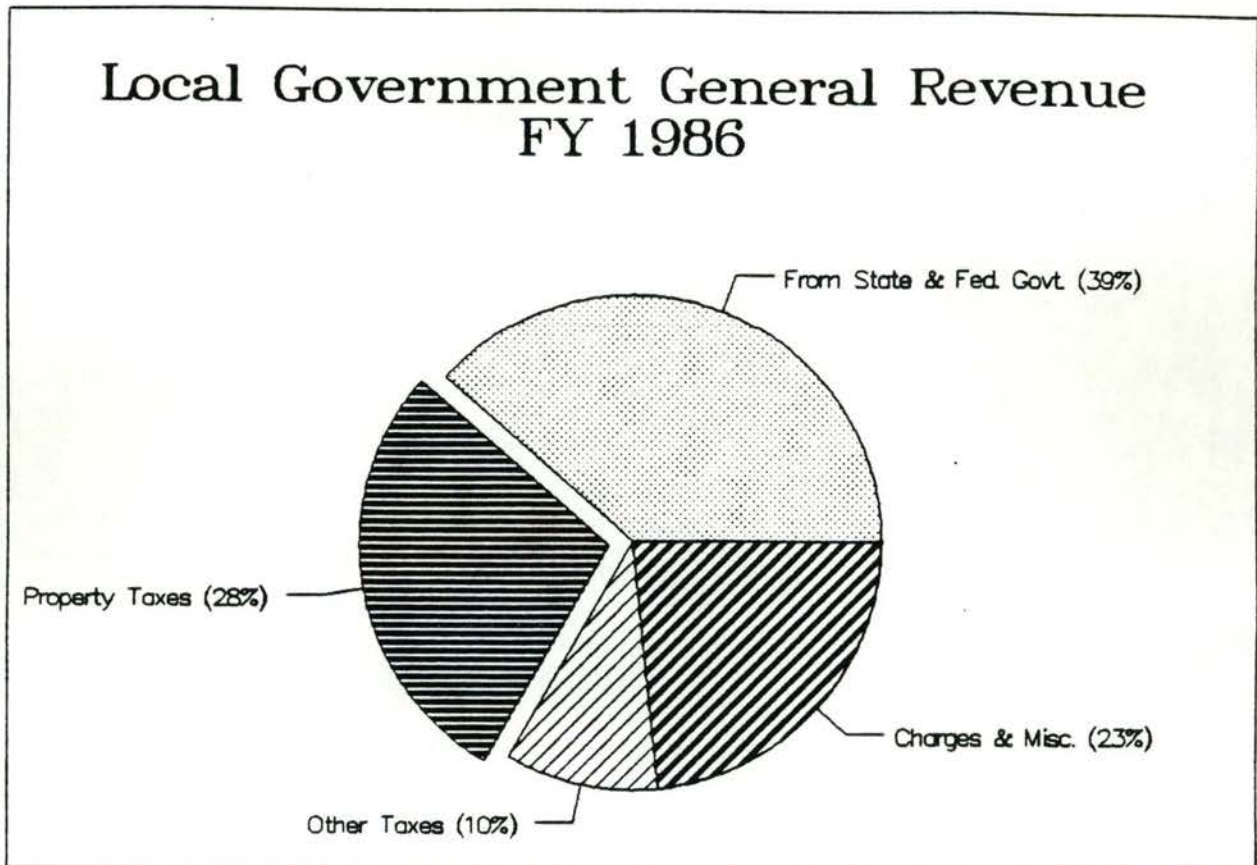


Nationally, property taxes represented more than 5 percent of state government tax revenue in only seven states. The states relying most heavily on the property tax as a source of state tax revenue were Alaska (52 percent), Maine (25 percent), Washington (15 percent), and Arizona (11 percent).

LOCAL REVENUE SOURCES

The major revenue sources of local governments in the United States are shown in Figure 6. Revenue from state and federal grants accounted for nearly two-fifths of all local revenue; local charges for services and other nontax revenue made up 23 percent of the total. The local property tax was by a wide margin the largest source of local tax revenue.

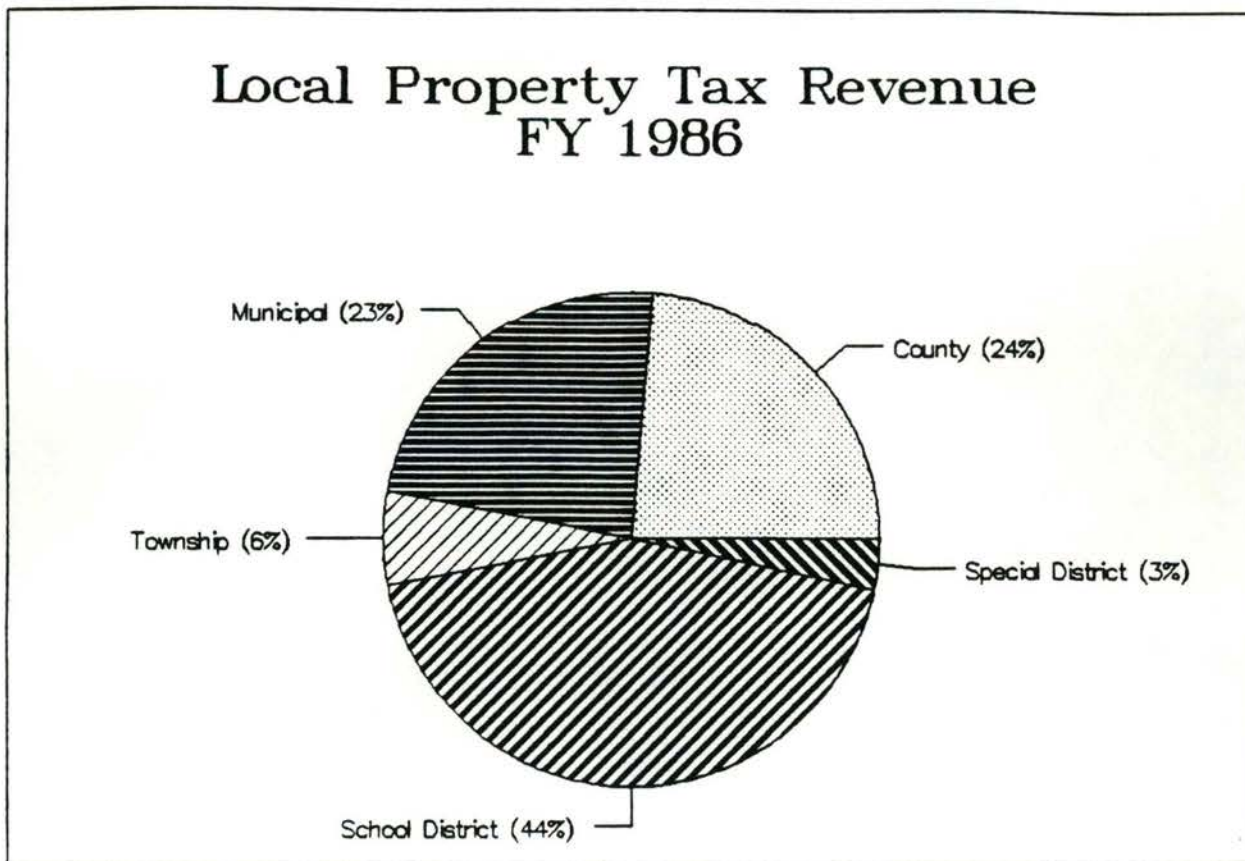
Figure 6



The revenue sources of local governmental units vary markedly from state to state and by type of local government. However, in FY 1986, property taxes accounted for more than 90 percent of all local tax revenue in 20 of the 50 states. In only eight states did property taxes account for less than 60 percent of all local tax revenue.

School districts received 44 percent of all local property tax revenue in 1986 (Figure 7). And in states where elementary and secondary education is a responsibility of county, municipal, or township governments, the property tax is also an important revenue source. For states in which independent school districts are responsible for local schools, the property tax provides virtually all school district tax revenue. (An exception is Louisiana, where more than half of school district tax revenue comes from sales taxes.)

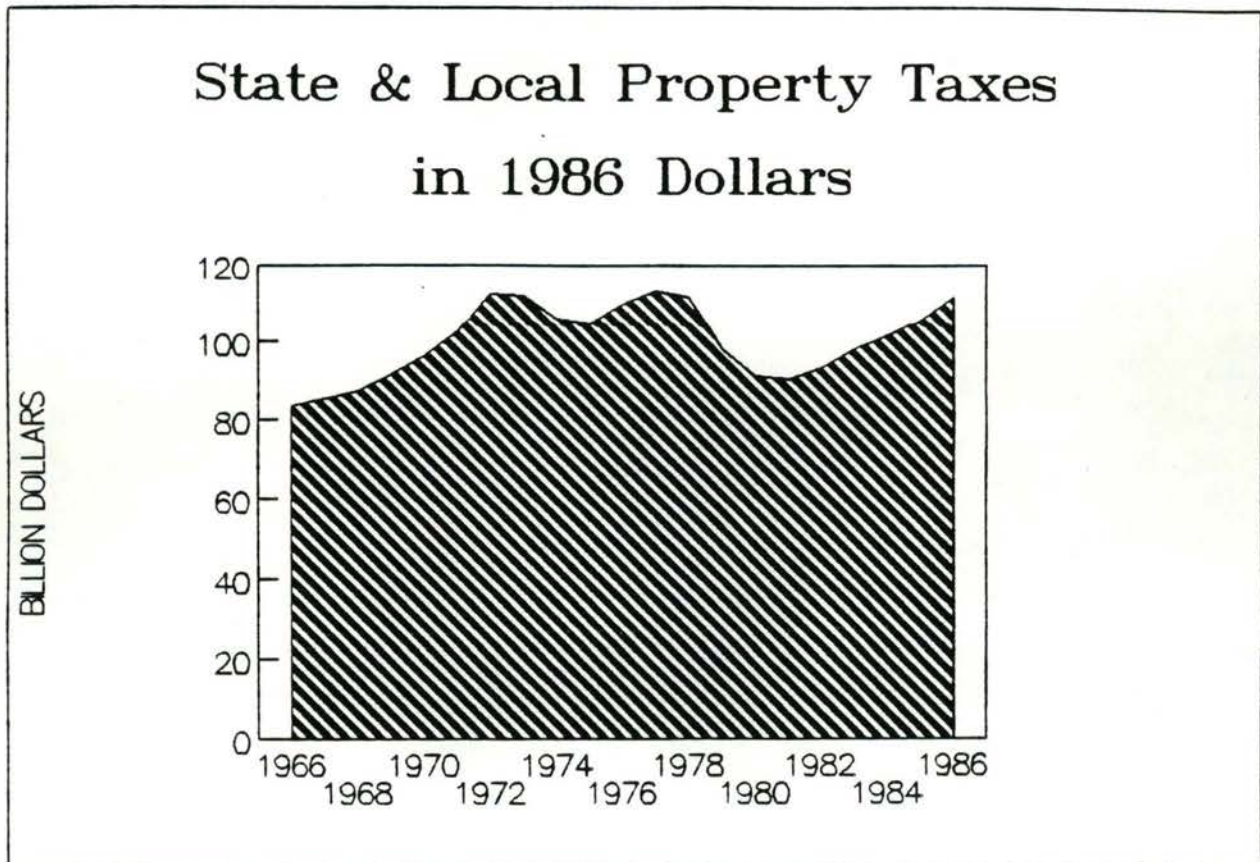
Figure 7



PROPERTY TAXES: UP OR DOWN?

Have those who favor holding the line on property taxes won the battle? The answer depends on your point of view. Looking at the past 20 years, we can see that property taxes, adjusted for inflation, grew rapidly from 1966 to 1973 (Figure 8). Property tax collections then dipped briefly, only to climb again to a record high in 1977 of \$113 billion (in 1986 dollars). From 1977 to 1981, property taxes dropped sharply -- declining by 20 percent in four years. Since 1981 property taxes have risen steadily.

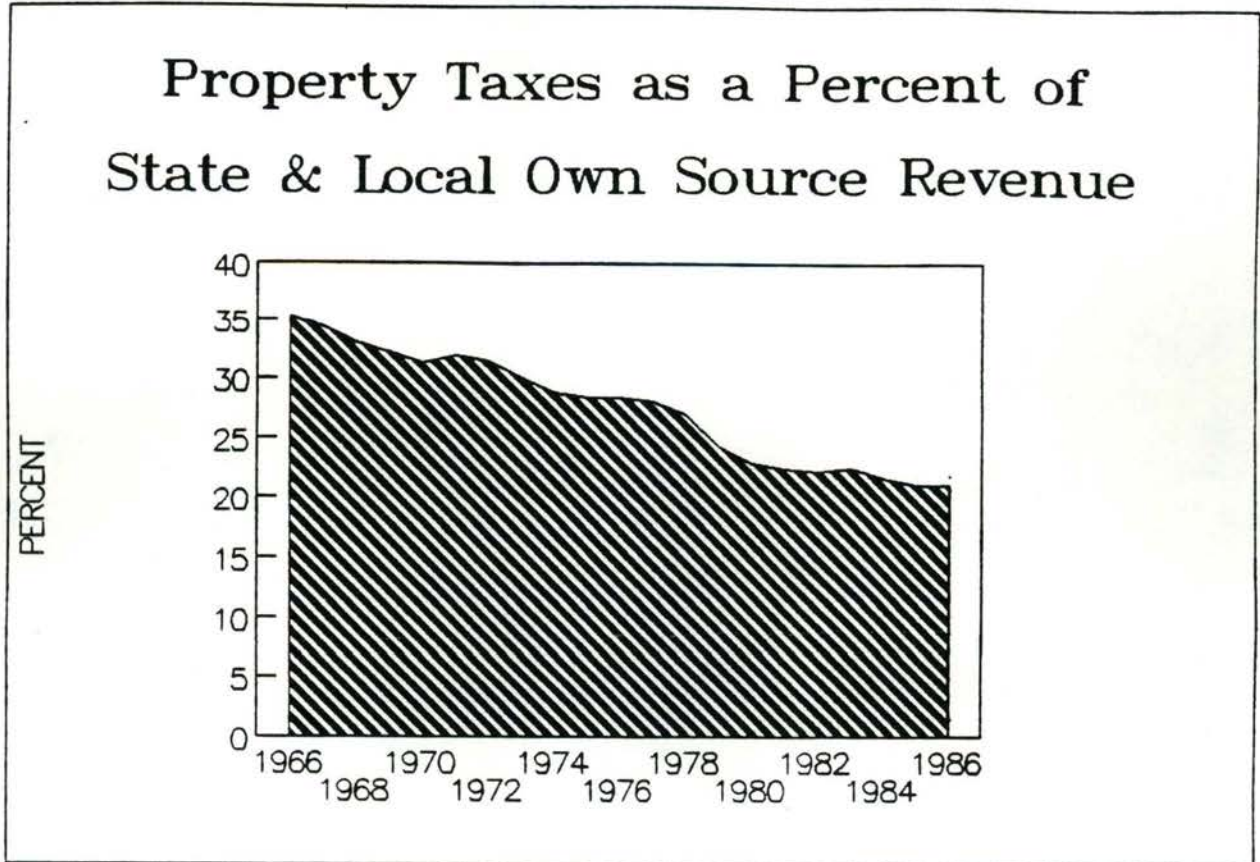
Figure 8



Although total property tax collections have shown no consistent movement up or down over the past 20 years, the relative importance of the property tax as a source of state and local government revenue has fallen rather steadily. In 1966, property taxes accounted for 35.3 percent of all state and local own source revenue (Figure 9). That figure fell to 28.4 percent in 1976 and 21.1 percent in 1986. Clearly, states have de-emphasized the property tax. That has been accomplished by increasing other state and local taxes and by increasing charges for public services.

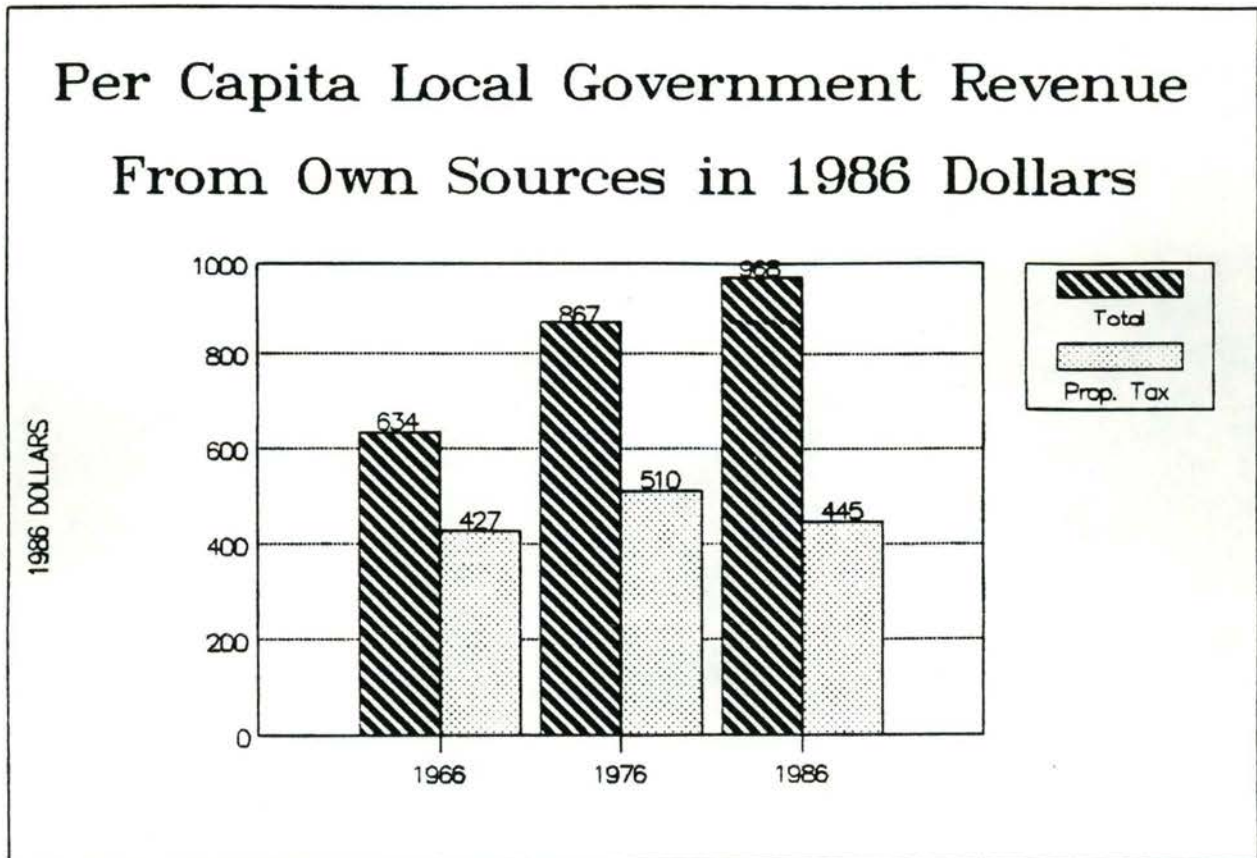
Looking just at local government revenue, the property tax has certainly lost ground to other local sources of government funding. Measured in 1986 dollars, per capita local government revenue from all local sources grew from \$634 per person in 1966

Figure 9



to \$867 in 1976 and \$968 in 1986 (Figure 10). During this period, local property tax collections per capita went from \$427 in 1966 to \$510 in 1976; but by 1986 per capita local property taxes had dropped to \$445.

Figure 10



A CONCLUDING NOTE

What can we learn from this brief look at trends in state and local government revenues? Several points are worth mentioning:

1. Despite recent increases, revenue from the federal government accounted for a lower percentage of total state and local revenue in 1986 than in any other year since 1970.
2. State and local own source revenue has grown more rapidly since 1980 than during any other period in the past 20 years.
3. Total property tax revenue dropped sharply from 1977 to 1981, but has risen steadily since then.

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4. Property taxes have fallen steadily over the past 20 years as a percentage of state and local own source revenue.
5. Local governments have become less dependent on property taxes and more dependent on nonproperty tax revenue sources and user charges.

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