

FINANCING PUBLIC FACILITIES AND SERVICES

IN OKLAHOMA

BY

HOUSTON EVERETT WARD

Bachelor of Science
Oklahoma State University
Stillwater, Oklahoma
1935

Master of Science
Oklahoma State University
Stillwater, Oklahoma
1959

Submitted to the Faculty of the
Graduate College of the
Oklahoma State University
in partial fulfillment of
the requirements for
the Degree of
DOCTOR OF PHILOSOPHY
May, 1968

OCT 29 1968

FINANCING PUBLIC FACILITIES AND SERVICES

IN OKLAHOMA

Thesis Approved:

Luther G. Twitten

Thesis Adviser

James D. Clapp

Vernon R. Edman

John H. Bradsher

Carl E. Marshall

D. Durham

Dean of the Graduate College

688856

PREFACE

This dissertation is concerned with assembling information that adequately explains the problems of financing state and local governments in Oklahoma. Thus, the study is an analysis of taxes used to raise revenues and the expenditures made from these by state and local governments. Revenue efforts and expenditures of local and state governments are presented in relationship to several variables, some of which are not ordinarily contained in statistical data available on the subjects. The use of these criteria changes the relative position of Oklahoma in performance comparisons with other states.

I wish to express my appreciation for the guidance and assistance provided me by the following members of my committee: Dr. Luther G. Tweeten, whose counsel was most helpful in organizing and completing the analyses of this study; Dr. James S. Plaxico, for encouraging me to undertake and continue the advanced study leading to this dissertation; Dr. Vernon R. Eidman, for his careful reading and willing counsel in the final drafting of the dissertation; Dr. J. H. Bradsher and Dr. C. E. Marshall, for their interest and encouragement.

A number of other people assisted with this study and thanks are specifically due Pat Cundiff, Bonnie Garner, Carol Kelling and Biddy Sumner. Finally, I would like to recognize the contributions of my wife, Mable, daughters Jewell and Marilyn, and son, John, whose sacrifices and encouragement enabled me to complete the work connected with this dissertation.

TABLE OF CONTENTS

Chapter	Page
I. INTRODUCTION	1
Need and Purpose of Study	3
Objectives	4
Previous Studies	5
Procedure	8
Outline of Following Chapters	10
II. PRINCIPLES OF PUBLIC FINANCE	12
The Role of Government	13
The Political Process	15
Taxation and Taxes	17
Types of Taxes	19
Impact and Incidence	24
III. SOURCES OF REVENUE FOR STATE AND LOCAL GOVERNMENT IN OKLAHOMA	27
Growth in Taxes	28
State Revenues	28
Tax Revenues	33
Oklahoma Tax Commission	37
State and Local Revenues	39
Local School Finance	41
Earmarked Revenues	46
Recent Tax Developments	51
Tax Revenues Compared	54
Trends in State Taxes	59
Local Revenue Trends	63
IV. STATE AND LOCAL EXPENDITURES	66
State Budgeting	67
State Expenditures	68
Public Welfare	74
Education Expenditures	76
Public School Expenditures Compared	79
Higher Education Expenditures	87
Trends in State and Local Spending	91
State and Local Expenditures for Oklahoma	9
Summary of Expenditures	9

Chapter	Page
V. ANALYSES OF TAX BURDENS BY COUNTIES IN OKLAHOMA	98
Methodology	101
Local Tax Analysis	102
Property Tax Analysis	106
Deviations	110
Analysis of State Taxes at the County Level	114
Federal Taxes at County Level	118
Total Taxes at County Level	120
Summary of County Tax Burdens	126
VI. ALTERNATIVE MEANS OF MEETING THE PUBLIC REVENUE PROBLEM	128
Inadequacies of Local Units	133
CED Recommendations Applied to Oklahoma	136
The Problem in Oklahoma	139
Alternative Solutions to the Problem	142
The Effect of Changes	146
VII. SUMMARY AND CONCLUSIONS	155
Revenue	156
Trends in Taxes	158
Expenditures	158
Regression Analyses	160
Alternatives	161
Conclusions	161
BIBLIOGRAPHY	164
APPENDIX	167

LIST OF TABLES

Table	Page
I. Summary of Revenue by Source State of Oklahoma Fiscal 1964-65	30
II. Revenue From Other Agencies Oklahoma 1964-65	32
III. State Taxes by Source Fiscal Year 1964-65	34
IV. State Revenue by Type of Fund for Fiscal Year Ending June 30, 1965 - Oklahoma	39
V. Summary State and Local Revenue by Source Oklahoma 1962	40
VI. Summary of Per Capita General Revenue United States Average and Oklahoma - 1962	42
VII. Summary of Local School Finances by Source Oklahoma, 1963-66	43
VIII. Sources of Revenue and the Amount Collected From Each Source by the Common Schools of Oklahoma Fiscal Year 1964-65	45
IX. State and Local Tax Revenue by Government and Type of Tax U. S. Average and Oklahoma Fiscal Ending June 30, 1966	56
X. State and Local Government Revenues in Oklahoma Compared to U. S., 1962	57
XI. Employment and Payrolls of State and Local Governments, October - 1962	58
XII. Selected Per Capita State and Local Revenue, Selected States, 1962	59
XIII. Collections of the Oklahoma Tax Commission Fiscal Years 1954-55 to 1965-66	60
XIV. Oklahoma Local Government Revenues for 1957 and 1962	63

Table	Page
XV. Summary of Expenditures Made Through Treasury Funds by State Agencies for the Fiscal Year Ended June 30, 1965	69
XVI. Summary of Expenditures Made Through Treasury Funds by State Agencies for the Fiscal Year Ended June 30, 1966	73
XVII. Summary of Public Welfare Expenditures Oklahoma 1964-65	75
XVIII. Current Expenditures Per Pupil in Average Daily Attendance Elementary and Secondary Schools - Selected States and U. S. Average, 1962-67	80
XIX. Expenditures for Education as Percent of Total Direct General Expenditures by Level of Government and Total United States and Selected States 1965-66	82
XX. Relations of Selected Items of State Government Finances to Personal Income: 1966	84
XXI. Percent of Personal Income Expended on Education by State and Local Government U. S. Average and Selected States 1965-66	86
XXII. Expenditures From Current Funds by Institutions of Higher Education, United States 1955-56 to 1967-68	88
XXIII. Appropriations of State Tax Funds for Operating Expenses of Higher Education United States Average and Selected States, 1959 - 1967	89
XXIV. State Appropriations for Institutions of Higher Education as a Percentage of Personal Income, United States and Selected States, 1959 - 1966	90
XXV. State and Local General Expenditures Actual and Projected, Fiscal Years 1955-1975	92
XXVI. State and Local Government Expenditures Oklahoma Fiscal Year - 1962	94
XXVII. Selected Per Capita State and Local Expenditures Selected States - 1962	97
XXVIII. Regression Equations, Total Local Tax Per Capita	104

Table	Page
XXIX. Regression Equations, Variables in Logarithms, Local Taxes Per Capita	106
XXX. Regression Equations, Variables in Logarithms, Local Property Tax Per Capita	109
XXXI. Counties With Minor Deviations Between Actual and Predicted Tax	111
XXXII. Counties With Large Deviations Between Actual and Predicted Taxes	112
XXXIII. Counties With Extreme Deviations Between Actual and Predicted Taxes	113
XXXIV. Regression Equations, Variables in Logarithms, State Tax Per Capita, by Counties	115
XXXV. County Index Numbers for Selected Tax Items and Income, Oklahoma 1961-62	116
XXXVI. Regression Equations, Variables in Logarithms, Federal Tax Per Capita by Counties	120
XXXVII. Federal Income Tax Returns by Adjusted Gross Income Classes Oklahoma, 1961	121
XXXVIII. Summary of County Per Capita Taxes by Level of Government, Oklahoma, 1961-62	122
XXXIX. Regression Equations, Variables in Logarithms, Total Taxes Per Capita	124
XL. Federal Share in Local Government	131

CHAPTER I

INTRODUCTION

Legislators and other government officials face increasing pressures for revenue to finance public facilities and services. This was a biennial problem for Oklahoma legislators and administrators until 1967. The legislative session that year was no exception in respect to revenue problems but differed from prior ones in that it had to appropriate funds for one year only. The 1968 Legislature faced the situation of meeting requests for more facilities and services with relatively little more anticipated revenue than available in the prior session. The problem was intensified by demands for salary increases for employees of established agencies.

Problems of financing by state and local governments remain, despite alleged growth in the role of federal government in local affairs. Although there may be evidence of a trend toward more stringent requirements for eligibility of federal grants to local and state governments, performance of most civil functions remains a state-local responsibility. Federal grants often require local revenue in some matching proportion as one condition for eligibility.

Oklahomans are concerned with the rising costs of local and state government -- as providers of revenue and/or recipients of the services financed from that revenue. Increasing costs may arise from introduction of new government functions or expansion of established ones.

Traditional functions of state and local government have not only grown in size but have undergone a vast change in content. Educational functions have grown faster than others as more children go to school for a longer period of time and study more complex subjects which require more equipment and better trained personnel. Highway expenditures have also expanded in response to a greater number of automobiles, the need for faster moving traffic, and increasing dependence on truck transportation. State legislators are generally faced with more requests for funds than existing revenue measures will provide. They must decide whether to levy new taxes for additional revenue or cut budget requests to fit available funds. County and city commissioners face similar situations but their authority for raising revenue is more limited. Each of these governing bodies are periodically confronted with requests by formal or informal groups for new or expanded expenditures for public services. However worthy these requests may be, lack of revenue to finance them is usually a critical factor.

Seldom do legislators get organized support for seeking new sources of revenue except by some requesting more funds. A better understanding of what functions are expanding and why they are growing should result in a more cooperative public to assist legislators and other officials in providing more efficient services of state and local governments. How the tax burden is distributed and who gets the benefits from the expenditures are two broad topics that may take on more meaning when looked at objectively from the standpoint of all functions rather than particular ones of interest to specific groups.

The problem of government officials is compounded by public controversies which often develop among groups concerning goals to be

achieved and methods of financing activities connected with the attainment of these goals. This does not necessarily label citizens as taxpayers versus beneficiaries of the revenue since they often are both. But lines are often drawn according to the degree of impact of revenue collections and expected benefits from the expenditures upon different groups of persons or segments of the public. Due suggests that this situation should be resolved by government officials:

It is the responsibility of the government to select that level which appears to be most closely in conformity with the consensus of opinion in society with respect to various goals. This process requires the careful weighing of the gains from the various activities against one another in the light of the government's estimate of the consensus of opinion of society toward the desirability of various degrees of attainment of the goals. Likewise, the¹ benefits must be weighed against the real costs to society.

Need and Purpose of Study

This writer became aware of the apparent inadequacy of local revenues to meet changing conditions during the latter forties while serving as a county agricultural agent. This contact with the problem and observation of political developments associated with state revenue matters revealed the absence of any positive coordinated movement to improve the total tax and revenue structure in Oklahoma.

Interest in public finance problems was intensified while the writer studied economic problems of community development at North Carolina State University as a Kellogg Fellow during 1963-64. This interest was further stimulated by working with the Southern Regional Extension Public Affairs Committee. The need for a study of the subject

¹ John F. Due, Government Finance, An Economic Analysis (3rd ed., Homewood, 1940), p. 25.

in Oklahoma became more evident in early 1965 when the crisis developed over state appropriations for common school aid.

A fundamental purpose of this study is to collect information for use in an educational program to create a better public understanding of government functions and finance. A well informed public should result in improved government operations and a more cooperative attitude in providing needed public services and facilities. Many worthwhile community projects, or statewide programs, may often be defeated while less worthy ones pass in referendum votes because of a lack of knowledge of all the factors involved. General understanding of the principles involved could result in more orderly campaigns connected with issues that otherwise become more emotional than educational.

Objectives

The major objectives of this study are:

1. To describe the tax and revenue structure of Oklahoma, determine trends in revenue raised from various sources, and compare total revenue raised with adjoining or similar states in terms of accepted finance principles.
2. To present a descriptive analysis of Oklahoma expenditures, determining the extent to which they meet public needs in terms of distribution of benefits, and comparing these expenditures with those for like functions in other states.
3. To analyze property taxes in terms of equality among counties and classes of property, and determine the relationship of these findings with the revenue problems of the state.

4. To estimate federal, state, and local taxes per capita for each county in Oklahoma, and analyze the incidence of these taxes relative to levels of income and wealth.

5. To explore possible changes or alternatives open to citizens concerning the financing of public facilities and services, and to appraise these in terms of taxation principles.

The information assembled in this study can serve as a guide to those investigating the possibilities for tax and budgetary reform. The analysis presented should be helpful in measuring the impact and economic effects of any proposed changes. Although the data used in this study are available in various forms at different places, this study serves a useful purpose by assembling the data in a quick reference form. The Research Division of the Oklahoma Tax Commission compiles biennial reports, which are complete and informative, on tax collections and apportionments. The material presented in this study relates this information to the state budget and to local expenditures and taxes.

Previous Studies

A search of the literature when starting the study revealed no published study of Oklahoma taxes and expenditures made in recent years. The most recent study found at that time dealt with budget procedures and practices by the state government.² Waldby made a comparative study of methods of control and supervision employed among the several states.³

²Leslie Allen, Oklahoma State Budget Procedures and Practices, Bureau of Government Research, University of Oklahoma (Norman, 1957).

³H. O. Waldby, Recent Trends in State Supervision of General Property Assessments, Bureau of Government Research, University of Oklahoma (Norman, 1951).

After the data for this study had been assembled and the first draft completed, Sharp released a study of trends in Oklahoma revenues and expenditures.⁴

Several studies made in other states have been examined in preparation for this analysis. All of these have been made in the past ten years, mostly in the last five years. Lutz used 1957 data to make a comparative study of state and local financing in the United States and New York. He found that for the year studied, state and local taxes per capita varied from \$104 in Arkansas to \$250 in California.⁵ His conclusions were that state-local expenditures were destined for substantial growth. Growth during the past seven years seems to justify this prediction.

Oklahoma was included in a regional study of ten states compiled by Thompson in 1966.⁶ This study was more descriptive than analytical but did make a comparison of the tax structures of each state. The primary emphasis was on recent changes in rates and types of taxes.

The effect of removing personal property from the tax rolls in North Dakota was examined and appraised by Ostenson and Loftsgard.⁷ Their analysis was prompted by criticism of the personal property tax within

⁴ Ansel M. Sharp, State and Local Government General Expenditures and Revenues In Oklahoma: Past and Future Trends (Stillwater, 1965).

⁵ E. A. Lutz, Local and State Financing in the United States and New York, Cornell University A. E. Ext. 51 (Ithaca, 1960).

⁶ Layton S. Thompson, Recent Developments in Taxation in the Great Plains, Montana Agricultural Experiment Station Bulletin 608 (Bozeman, 1966).

⁷ Thomas K. Ostenson and Laural D. Loftsgard, An Appraisal of Personal Property Taxes in North Dakota, North Dakota Experiment Station Bulletin No. 467 (Fargo, 1966), pp. 3-4.

political subdivisions. The study appraised alternative sources of revenue, and presented a method, of replacing locally collected personal property taxes with state revenues. Under this method if personal property taxes were eliminated, all replacement revenue appropriated from state collected taxes could be apportioned only to the public schools. Major revenue for the remaining units of local government would depend on tax levied upon real property. The apparent effect would be:

1. Greater reliance upon state revenue for public schools from sales and income taxes.
2. Less reliance upon property taxes for public school purposes.
3. Development of a tax system placing more emphasis on "benefits received" in its allocation of tax responsibilities.

In a study of cost and financing public services in Nebraska, Peterson, Olson and Timmons found that local governments in that state provide a greater proportion of services than in most other states. They also found that the state government depended more heavily on property taxes than other states.⁸

Jones and Corty studied the tax problems associated with a rural parish in Louisiana which was undergoing economic and social adjustments typical of many rural areas which have lost population.⁹ They found that expenditures in the unit studied had grown from \$559,000 in 1940 to slightly more than \$3 million (excluding \$1.5 million for public welfare)

⁸ Everett E. Peterson, Fred L. Olson, and Jack D. Timmons, Public Services: Cost and Financing (Univ. of Neb. Let's Discuss Nebraska Taxes, EC 62-817 B [Lincoln, 1962]), p. 16.

⁹ Carl E. Jones, and Floyd L. Corty, An Economic Appraisal of Public Revenues and Expenditures on Lincoln Parish Louisiana, Louisiana Agricultural Experiment Station Bulletin No. 561 (Baton Rouge, 1962), p. 66.

by 1959. Furthermore, the big increase in revenues occurred in the form of state grants and these were primarily for the parish school system. The study was applicable to over fifty percent of the parishes in the state.

Incidence of taxes by income-occupation categories in Iowa was analyzed by Thomas.¹⁰ The overall incidence of Iowa taxes showed a strong regressive tendency although not as distinctly as the sales tax incidence. Self-employed persons paid 22 - 28 percent of their income for taxes, farmers 15 - 21 percent, and other occupational groups paid only 8 - 12 percent of their income. The Iowa income tax was progressive and took a fairly uniform percent of income among the seven occupation groups analyzed. Road use taxes were found to be regressive in all groups except for semi-skilled and unskilled workers with under \$4,000 family income. Real and property taxes fell heavily on the self-employed and farmers, and tended to be regressive with respect to income.

Procedure

This study was designed to provide information to assist state citizens in evaluating the effect of public expenditures on them as individuals. In order to accomplish the objectives of the study, it was necessary to provide data on a per capita basis. If these were not available, necessary computations were made. The relationship of taxes, income, and wealth is shown by appropriate statistical methods which are described as used.

¹⁰ Robert Thomas, Who Pays for Iowa's Public Services?, Iowa State University of Science and Technology MA-1347 (Ames, 1964).

One problem connected with the study was obtaining data which directly associated personal income with taxes paid. Family and individual income as reported by the Census were not directly associated with taxes. In order to associate costs and benefits with various revenues and expenditures, per capita incomes for each county were used in this study. This approach does not supplant the need to study individual and family differences in tax patterns within counties or the state. However, data to estimate incidence of taxes and benefits by various income groups of families are simply not available.

Local revenue and taxes per capita used in this study were reported in the Census of Governments. Certain state taxes are reported on a county basis. These were used as a base and proportional estimates were made to equate total state tax collections to arrive at the distribution of state taxes per capita by counties. The state income tax was used as a basis for distribution of federal income taxes by counties and proportional estimates applied to determine an estimate of total federal taxes paid per capita by counties.

Data compiled by the Research Division of the Oklahoma Tax Commission provided information on the state taxes and assessed value for counties. The Census of Governments in Oklahoma was used as a source of county data on expenditures and revenue. The State Budget provided data on sources of non-tax revenue and distribution of state funds to different functions of government. Personal income for each county was obtained from information compiled by Peach, Poole, and Tarver.¹¹ Data compiled by the Finance Division of the State Board of Education were used in analyzing

¹¹W. Nelson Peach, Richard W. Poole and James D. Tarver, County Building Block Data for Regional Analysis: Oklahoma (Stillwater, 1965).

local school expenditures. Other sources are used as the need arises in the progress of the study.

Outline of Following Chapters

The general organization of information presented in the remainder of this dissertation is as follows:

Chapter II briefly reviews the principles of public finance and the theoretical basis for application of these. The role of government in the political economy and the necessity for the political process are described. Functions of taxes and the types used in Oklahoma are presented. Basic philosophies of allocating tax burdens are discussed.

Chapter III describes the specific sources of revenues for Oklahoma and presents aggregate data on collections from these sources. Specific taxes are discussed in detail, and their historical and projected growth is presented and analyzed. Earmarking of state revenues is described and evaluated. The relationships of state and local revenues are explained and the importance of federal grants is examined. Recent changes in taxes and administration of the revenue system are briefly presented. Revenues are compared with those of other states.

Chapter IV examines state and local expenditures in detail as to specific functions. Selected agency requests for funds are compared with appropriated amounts. Comparisons of expenditures for various functions are made. Educational expenditures in Oklahoma are compared with adjoining states and the national average. The relationship of these expenditures to personal income is presented. The contributions of each level of government to educational expenditures are shown. Trends in local and state expenditures are shown and discussed.

Chapter V presents results obtained by subjecting per capita tax estimates for each county to regression analysis. Local, state, federal and grand total tax estimates are presented and each is statistically tested to determine if regressive or progressive and to what extent. Deviations of individual county taxes from the equation estimates are explained in terms of different county characteristics. Local tax effort, state support of local revenue and per capita personal incomes in each county are compared by means of an index.

Chapter VI discusses possible alternatives for Oklahoma citizens in financing public services and facilities. Some general suggestions are presented and state practices compared with them. Alternative solutions are presented and evaluated in terms of the extent to which each might solve revenue problems. Specific proposals for taxes are also evaluated in terms of meeting accepted principles of taxation.

Chapter VII summarizes the results revealed by the study and presents conclusions as to the performance of the state in meeting public revenue needs. The alternatives for improving performance and the implications of using each is presented.

CHAPTER II

PRINCIPLES OF PUBLIC FINANCE

The purpose of this chapter is to examine briefly the basic principles underlying the tax structures of various levels of government. An understanding of these will help explain why taxes and other revenue measures are necessary and how they are applied to individual members of society. The functions of taxation will be presented along with an explanation of the general types of taxes used in the Oklahoma system. The philosophies under which tax burdens are allocated will be described along with the progression of tax rates.

A better understanding of these principles will result from a brief review of the role of government in the social and economic use of the citizens for which it is formed. A knowledge of the relationship of government to the private sector of the economy is necessary to fully appreciate the functions performed by government. In order to recognize the importance of these functions, some notion of the political process and public decision making must be possessed by the citizens that the government is serving.

The state citizen occupies a key position in making public decisions concerning inter-governmental relations. The decision making process within the local, state and federal levels of government is very complex. Since all local powers and authority flow from the state, a subdivision of the nation, the citizens of cities, towns, counties, and districts

should first meet their obligations to higher levels of government before they act as local citizens.

The Role of Government

Down through the ages man has contributed in some manner to the society of which he was a part. Tribal societies had certain functions performed by chiefs who received tribute in goods or services from the members. The European feudal lords provided protection and other services for the peasants and demanded specified returns from them. The latter type of society was a smaller part of some form of governmental organization under a ruler. Men have recognized throughout history that many economic and political goals were best achieved through an organized government. Early day kingdoms were supposedly organized to serve the interests of the whole society. Much turmoil and sometimes wars occurred because there were differences of opinion as to how these interests were served.

Government was created in the United States with a responsibility to society and to meet the expressed desires of that society. Thus, our government exists to serve the people of the United States and to provide those services which they demand through their elected representatives. In our early history, fewer demands were made on government because people were relatively isolated and devoted most of their time to providing basic needs of family life. As the economy of the country concentrated population into small areas, the need for more public services developed. Men found that in their new specialized jobs they could afford to pay a part of their increased production for services which they

formerly provided for themselves. Thus, the political economy takes on added importance with economic growth.

A political economy must solve the problem of balancing the use of scarce resources among competing economic and social goals. Economic goals include efficient use of resources and attainment of growth in the economy. Social goals include such things as economic, political and social freedoms, equity or justice, and the best levels of living attainable. To meet these goals requires the following decisions:

1. What and how much to produce.
2. How should the use of resources be distributed among private and public activities to get the most satisfaction for society.
3. How to distribute products among members of society to provide a minimum standard of living for all households in the economy.
4. How to maintain and expand the economic system.

These decisions are made by organization of activities through the family, the market, and the government.

The price system is generally recognized as a basic part of American capitalism. However, government economic functions play an important role in the effective operation of a market oriented economy. Government provides the necessary legal framework through which the economy operates. In addition, government provides certain basic services that supplement and strengthen the operation of the price system.

However, the price system operates in response to decisions made by individuals and does not take into account social costs or social benefits which result from specific economic activities. Certain types of goods and services are not produced in sufficient amounts in an economy that relies entirely on the price system. These are social goods and services.

If society is to secure the desired amounts, their production must be directed by government. Thus, a number of strategic economic decisions must be made collectively through government rather than by individuals acting as consumers or business firms.

The Political Process

Goals which are attained by government require policy decisions made through the political process. The nature and scope of public activity is determined by these decisions. Common social objectives rather than profit motives or consumers' choice serve as a basis for the decisions. In the public sector the benefits may not always accrue to those who pay the taxes. The benefits may not be in proportion to the taxes paid. In this respect government differs from business and most phases cannot be run in the same manner.

Public policies are carried out through government programs. These programs are framed by legislators in response to demand from special interest groups and the general public. After establishment, the executive is responsible for administering the program within guidelines prescribed by the legislators. Administration of the program is checked through budgets and audits. Private citizens and interest groups have access to the courts for review of legislation and administration of it.

In the United States citizens ask, and expect, a wide variety of services from governmental units. Meeting the demand for basic services that benefit society as a whole is one important reason for government activity. Road systems, mail services, police and fire protection, and national security are examples of this. Another reason for public activity is to provide services such as education, health and welfare that benefit

individuals and society. Certain activities, when social costs exceed the value of individual freedom of choice, require regulation through public programs. The present emphasis on air pollution control is a prime example of this type of function.

There are two other groups of government functions which have taken on added significance in recent years. One group consists of activities concerned with reducing interferences with competition such as control of monopoly power, establishing grades and standards, and providing economic information. Another group of functions has to do with economic growth and resource development. In this group of government activities are such projects as reclamation, municipal water supply, flood control, development of transportation systems, and similar programs.

Many of these activities have been a part of government for years but may have expanded. Others may be new projects or activities initiated through some governing body to meet public demands. Once legislators or other government units undertake specified activities, then they must decide on the level of spending for each activity and the government as a whole. After reaching a decision on the level of spending the next question is how to obtain the revenue.

The "government financier" is described as a convenient fiction by Ederer and Riley.¹ They use the term in explaining the decision process but emphasize that planning and making expenditures, obtaining revenues, and managing the public debt are all interrelated aspects of one complex activity, no one of which is independent of the others. At any level of government, the responsibility extends from the executive

¹Rupert J. Ederer, and Robert C. Riley, "Financing the Public Economy," Public Finance, ed. Richard W. Lindholm (New York, 1959), pp. 5-8.

branch all the way to the members of the electorate who choose and influence their political representatives.

Available to the government are several sources of income including (1) taxes, (2) the sale of goods and services, (3) grants in aid from higher to lower governmental units, (4) the creation of new money, and (5) borrowing. The number four source is reserved to the federal government and will not be dealt with in this study. Neither will much attention be devoted to the fifth source. The first three sources are vital to the analysis planned.

The efforts of legislators and budget executives to obtain revenue are limited by federal and state constitutions, laws, and public tolerance. The Constitution of the United States imposes certain limitations upon both federal and state governments as to what taxes may be used and how they may be applied. Local government units are dependent upon state constitutions and laws which often set absolute limits as well as the range of taxes. Public tolerance has been an important factor in taxation in this country since the American Revolution.

Taxation and Taxes

Any discussion of taxation principles are incomplete without the famous tax canons stated in 1776 by Adam Smith in his book, The Wealth of Nations. According to Smith, a tax should be:

1. Equitable, or levied according to ability to pay.
2. Certain as to time, manner, and amount of payments.
3. Convenient as to time and manner of payments.
4. Economical to levy, collect, and administer.

These laws have weathered the times and most authorities agree that for

the most part they are still appropriate. They seem to meet the requirements of the individual quite well.

It may or may not be a coincidence that Smith published his book the same year that the American Colonies had declared themselves independent of his native country. Opposition to taxes had been the main issue leading up to the declaration and eventual formulation of the United States of America. But taxes have grown right along with this great nation and some would argue that a good tax system has enabled it to grow. Ederer and Riley summed up the role of tax in this manner.²

Taxation is, and seems destined to remain, the primary source of revenue for all levels of government. Throughout history public servants have shown remarkable ingenuity in devising new types of taxes. From time to time the emphasis has shifted from one type of tax to another, but when new taxes are contrived, they are more often used in addition to, rather than in place of older methods. Thus we have at all levels of government a variety of taxes. It is a moot question whether a single tax might not be a desirable alternative both from an administrative viewpoint and from the standpoint of taxpayer morale. If there is such a trend at present it may well be a movement toward an ever increasing reliance on the income tax. Income seems today to be the most reliable gauge of ability to pay, whereas property taxation was better suited to rural, agricultural conditions.

There might be some argument about the last two statements quoted above, considering the rapid expansion of the sales tax and the heavy burden of property taxes on agriculture. Agreement should be fairly general on the point that numbers and types of taxes which may be imposed on the public are limited only by human ingenuity. Regardless of the type or number of taxes used, they are levied to perform one or more of three functions:

²Ibid., p. 8.

1. Raise revenue. This is the most important function of taxation as most taxes provide some revenue even when levied for some other function.
2. Regulation of activities. Import levies tend to protect domestic industry. License fees may control the number of outlets for a specific activity as well as provide a means of checking on them.
3. Contribute to fiscal policies of government. Business activity on a national level can be expanded or curtailed partly by changing types and amounts of taxation. Tax concessions are made for local development of industry. Income transfers can be affected by variation in rates and types of taxes.

Types of Taxes

The major types of taxes used in Oklahoma are:

Property Tax. Levied against real estate and both tangible and intangible personal property. Property taxes have been a part of the overall tax system of the United States since Colonial days. They were the main source of revenue for state and local governments throughout the nineteenth century. Since that time there has been a decline in the importance of property tax as a source of revenue for state governments. In Oklahoma property taxes are levied and collected by the county government according to procedures prescribed in state laws, with no part going to state government.

Income Tax. Levied on individual and corporate income by both state and federal governments.

General Sales Tax. This is a tax on the consumption of commodities and services. It is usually applied to a wide range of retail items and is added to the retail price as a specified percentage of that price. The federal government does not levy a sales tax. The State of Oklahoma collects a 2% tax and some cities are collecting a 1% sales tax.

Excise Tax. This is a form of sales tax on selected items and is usually incorporated in the final price. This tax may be levied against the manufacture of items or at any point of distribution. In Oklahoma this tax is applied to gasoline, motor vehicles, tobacco products, alcoholic beverages and other items. The motor vehicle excise is collected at time of title transfer on all new and used sales. The federal government also levies excise taxes on these.

Estate Tax. Levied on the assets of the deceased by both federal and state.

Gift Tax. Closely related to the estate tax, it is designed to prevent avoidance of the estate tax through gifts and also applies to other large gifts to individuals.

Severance Tax. This is a specific duty per unit or percentage tax on value of a natural resource that is extracted. In Oklahoma oil and gas are the chief sources of this tax, designated as gross production, but it is also levied on other minerals.

Use Tax. This is a type of sales or excise tax levied on goods imported into the state for storage, use or consumption and on which no sales tax has been paid.

Franchise Tax. This is a privilege tax on certain corporations, organizations, and trusts levied each fiscal year.

Licenses, Fees and Permits. These levies cover a number of items

including motor vehicle registration and title fees, license and mileage tax, drivers licenses, dealership permits and licenses for a wide variety of specified operations.

The merits of these and other taxes in Oklahoma are evaluated, and are supported or attacked. Most arguments for or against a particular tax involve some idea of justice in the allocation of the burden of that tax to individuals. Allocation of tax burdens can be made on one of two basic philosophies:

1. Cost of the Benefit. Under this principle those individuals who benefit from an act or service of a government unit should pay the cost of the benefit. Turnpike tolls, hunting and fishing licenses, and gasoline taxes are examples of those applicable to this basis. Some government activities such as education do not lend themselves to easy determination of the ultimate beneficiary against whom to levy the cost. In the case of assistance to low-income families, the recipient is easily identified but the cost cannot be allocated on the benefit basis.
2. Ability to Pay. This principle of taxation rests on the idea that the tax burden should be apportioned according to the taxpayer's financial position. Application of this principle in the United States has come to mean a higher percentage of income is paid in taxes by those with high incomes than those with more modest or lower incomes. Wealth is also considered in the ability-to-pay principle.

Proponents of this principle argue that each additional dollar of income acquired by a person will return progressively

smaller amounts of satisfaction. This is otherwise known as the declining marginal utility of money. Since consumers usually spend the first dollars of income for basic needs, successive dollars spent will go for less urgent needs. Thus, a dollar in taxes collected from a poor man allegedly causes him a greater sacrifice than that caused a rich man paying a dollar. Therefore, it is contended that taxes should be apportioned according to one's income to balance the sacrifices. This balance is difficult to achieve in practice, but the federal income tax rate is an attempt to do so.

Closely related to the concept of paying for benefits is the tax consciousness theory. This holds that since every citizen benefits from government they should pay taxes and pay them in such a manner that he is aware of paying them. Those who favor this theory argue that unless citizens are contributing directly to government support, they will vote for unnecessary or extravagant governmental expenditures. Ellickson and Jancauskas state that application of this theory can effectively retard the expansion of government activities of all types.³

Associated with the above principles of tax burdens is the question of tax rates and the manner in which these rates change as the size of the tax base increases. The tax base is the value of that which is being taxed. Taxes may be classified according to the manner in which rates are applied to this base and are labeled as progressive, proportional, or regressive.

³ Donald L. Ellickson, and Raymond C. Jancauskas, "Criteria for Allocating Taxes," Public Finance, ed. Richard W. Lindholm (New York, 1959), pp. 297-321.

1. A progressive tax is one in which the higher valued base pays a higher percentage rate than the lower valued ones. A taxable base of \$1,000 may be taxed at an effective rate of 2 percent while one of \$2,000 value is taxed at 4 percent.

2. A regressive tax is one that has a declining rate as the value of the tax base increases. This type of tax takes a smaller proportion of the base but may or may not take a larger absolute amount as the base increases.

3. A proportional tax has the same rate regardless of the size of the base. The sales tax is proportional when expenditures are used as the base but is regressive when measured against income. One basis for the proportional tax is the tithe principle stated in the Bible.

Oklahoma rates for specific taxes are discussed in the next chapter, but it should be stated that labeling a tax as progressive, regressive, or proportional is difficult. The case of the sales tax is a good example of this problem. In this study wealth and income will be used to determine the progression of taxes.

The federal income tax is an attempt to levy a progressive tax based on ability-to-pay. The state income tax has some progressiveness but is not as extensive in its application as the federal tax. Gasoline taxes are proportional when based on gallons used but may be regressive when applied to income. Franchise taxes, licenses, fees, and permits are also regressive when each participant pays the same amount for the privilege or service.

Property taxes are generally considered proportional when measured in terms of market value but may become regressive if measured on income producing ability. Property taxes may not meet the ability-to-pay

principle in other ways since property is taxed irrespective of the owner's equity.

Flexibility has to do with the increase or decrease in total tax revenue as business activity rises or falls. A flexible tax will show responsiveness to changes in income of citizens. This results in high revenue when incomes are high and less revenue when incomes are low. An inflexible tax provides about the same money revenues regardless of business conditions. The property tax is inflexible while the income tax is flexible.

Impact and Incidence

The impact of a tax is on the first person or firm liable for paying the tax. But, this firm may be able to shift the tax to others. The term shifting refers to the transfer of some, or all, of the tax burden from the one on whom it was imposed to another. Shifting of taxes can be measured in terms of marginal or equilibrium analysis. Collins, Dillingham, and Rosenberg explain how this is done to determine who pays the tax. They present the axiom: "if no price change occurs, no shifting is possible."⁴ Collection of sales tax in most instances is on the consumer. However, the seller may lower the price of his goods enough to cover the tax and in this case there has been backward shifting on a voluntary basis. This is a special case and is not the specific kind of shifting mentioned above.

⁴Robert T. Collins, William P. Dillingham, and Samuel A. Rosenberg, "Shifting and Incidence of Taxation," Public Finance, ed. Richard W. Lindholm (New York, 1959), pp. 322-349.

Incidence of taxation refers to the final resting place of the money burden of the tax. If shifting does not occur, all of the incidence is on the same taxpayer upon whom the tax was levied. Taxes levied on corporations or other types of business firms and professional and service groups are usually passed on. Corporate income taxes may be passed on to the owners or stockholders in lower dividends. Grocery stores may pass most of their business taxes on to the consumers. A grain elevator or meat packer may be able to shift business taxes back to the producer in terms of lower prices.

The incidence of the personal income tax usually falls on the one upon whom the tax is levied. The corporate income tax incidence is debatable; one view is that it is born by the stockholders while others argue that part is passed on to consumers in form of higher prices and to resource suppliers through lower prices. Sales taxes are easily shifted but excise taxes are more difficult to shift in some instances. The difference lies in the range of goods covered by each tax. There may be substitutes available for goods on which the excise tax is placed.

In many cases, property taxes cannot be shifted and are borne by the owner. Rental property may be an exception, since the tax can be shifted in the form of higher rent. However, in some instances, competition may prevent rents from being raised to meet new levies. Business taxes are treated as a cost and are taken into account in establishing prices for goods and services. Farm and business taxes may be considered the same, but the farmer is seldom able to set price.

In this study, incidence is treated in broad general terms with no intention of following the various taxes to the ultimate taxpayer.

Generally, this means measuring obvious tax loads borne by various segments of the economy.

This chapter has presented a brief explanation of the principles of finance, taxes, government in the political economy and the types of taxes employed in Oklahoma. This material is intended as an aid to understanding the analyses to follow and should not be regarded as comprehensive nor complete. The cost-of-benefit and ability-to-pay principles are basic considerations in the allocation of tax burdens and the distribution of benefits. The incidence of a tax, or the final resting place of the money burden, does not always follow these principles.

It should be emphasized that taxes are not only allocated but play an important role in the allocation of resources. Higher taxes and government expenditures direct resources from the private sector to the public sector of the economy which results in more goods and services channeled through government and less through private enterprise. This is the nature of the political economy, and the citizens determine the growth of public services through the political process.

CHAPTER III

SOURCES OF REVENUE FOR STATE AND LOCAL GOVERNMENT IN OKLAHOMA

From the complex arrangement of decision making described in the preceeding chapter there arises an equally complicated system of public finance. It is not only a question of who decides but also who pays. The determination is usually made by representatives of the citizens in the particular level of government concerned with the issue. The individual citizen may be involved with the decisions at all three general levels of government -- local, state and federal. Likewise, he may be involved in paying revenue to all three governments. To this extent he needs to be aware of revenues collected by each government and how he shares in payment of these.

This chapter will present the general sources of state revenues, describe the groups of sources for Oklahoma and set out each group's contribution to the state total. Tax revenues will be discussed individually in detail. The function of the Oklahoma Tax Commission is also briefly described. The relationships of state and local revenues are explained and then specific local revenues are presented.

Earmarking of revenues will be discussed and appraised in terms of tax principles and the effect on total revenue. A comparison of Oklahoma revenues with other states of the nation is also presented. Statistical

trends of tax collections for both state and local governments will be traced and compared to economic growth.

Growth in Taxes

In April, 1967, The Wall Street Journal displayed a graph credited to the Tax Foundation. This graph depicted the rapid rise of taxes per capita since 1940 and a somewhat lesser growth from 1915 to that date. The report showed \$899 as the per capita tax load for the fiscal year ending June 30, 1966. This was a rise of \$39 or 4.5 percent from the previous year. The federal government received \$597 of the total while \$161 went to state and \$141 to local governments. By reporting per capita figures, this measure did take into account population change in the growth of taxes.

State Revenues

The income tax is the most important source of revenue for the federal government and this limits its expanded use by states. Wisconsin started use of this tax in 1911 and thirty-four states were using personal income as a source of tax revenue in 1962.¹ New Jersey adopted the personal income tax in 1962 to become the first state since 1939 to do so.² Thirteen states raised their individual income tax rates from 1959

¹Everett E. Peterson, Fred L. Olson, and Jack D. Timmons, An Evaluation of the Major Taxes (Univ. of Neb. Let's Discuss Nebraska Taxes, EC 62-817 D [Lincoln, 1962]), pp. 18-19.

²Ibid.

to 1963 with seven increasing rates in 1965.³ Comparable increases have been made in corporate income tax rates but not always in conjunction with the above.

The retail sales tax has become the most important source of tax revenue for state governments in the United States and was used by 34 states in 1960.⁴ Its growth is demonstrated by the fact that nine states imposed a new general sales tax from 1959 to 1966, and rates were increased by 14 states and the District of Columbia from 1959 to 1963.⁵ Oklahoma enacted the sales tax in 1933 with an initial levy of 1% beginning July 10 of that year. The 2% levy became effective July 8, 1936 and has remained in effect up to the present time. Revenue from this tax is allocated to the State Assistance Fund.⁶ The 1965 legislature authorized cities to levy a sales tax upon a favorable vote of the people. More discussion of this will follow.

For the fiscal year 1964-65 the State Budget Officer reported nearly \$625 million in revenue handled through state agencies. Taxes accounted for slightly less than half this amount while the remainder was non-tax revenue and intergovernmental transfers. Table I shows a general summary of the main groups of revenue sources. Each of these revenue groups is made up of a number of different categories according to source of collection and/or nature of disposition. Twenty different specific

³Layton S. Thompson, Recent Developments in Taxation in the Great Plains, Montana Agricultural Experiment Station Bulletin 608 (Bozeman, 1966), p. 8.

⁴Peterson, p. 12.

⁵Thompson, p. 7.

⁶Oklahoma Tax Commission, Oklahoma Sales and Use Tax Statistical Report (Oklahoma City, 1966), p. 3.

taxes comprise the tax group and some of these are actually further divided. For instance, gross production taxes are divided into those collected from natural gas and from other mineral production. Gasoline taxes are divided according to the use for which the money is to be used. In this case the taxes are levied under different statutes or sections of the particular law. These taxes will be discussed in detail below.

TABLE I
SUMMARY OF REVENUE BY SOURCE
STATE OF OKLAHOMA
FISCAL 1964-65

	Amount	Percent of Total
Total Taxes	\$301,535,478.38	49.05
Total Licenses, Permits and Fees	52,651,509.09	8.56
Total Fines, Forfeits, and Penalties	29,640.70	.004
Total Revenue from use of Money and Property	9,537,052.60	1.55
Total Revenue Received from Other Agencies	192,799,725.53	31.36
Total Sales and Current Services	29,715,505.71	4.83
Total Non-Revenue Receipts	28,465,619.78	4.63
GRAND TOTAL	\$614,734,531.79	100.00

Source: Schedule II, Division of the Budget, Executive Department, State of Oklahoma, 1965.

Licenses, permits, and fees are closely related to the tax group of revenues as most of these sources are required to pay some sort of fee in connection with operations. For instance, beverage licenses and permits are purchased by those who handle the goods on which the tax is levied. Alcoholic beverage licenses are issued by the Alcoholic Beverage Control Board while licenses for sale of beer are issued by the Tax Commission. A division of the Commission also issues cigarette licenses to retailers, vending machine operators, jobbers, wholesalers manufacturers, and distributing agents and tobacco licenses to wholesalers. Most of these licenses serve the primary purpose of simplifying the tax administration as well as a source of revenue. However, auto and farm truck license fees, as well as others, are a prime source of revenue.

The relatively small amount of revenue from fines has as its chief source those collected under the Fish and Game Law. All other fines and penalties listed together comprise slightly over half the total revenue from this group.

Revenue from use of money and property is composed of interest on bank deposits and investments, mineral rights, rents, royalties from gas and oil, and school land earnings.

Revenue from other agencies is shown in more detail in Table II and includes Federal grants-in-aid and reimbursements which supply most of the funds received in this group. Reimbursements from local subdivisions, refunds, transfers from other state agencies, and revenue from private sources complete this group.

Sales and current services as a group yields a sizeable proportion of revenue which comes from 36 specified sources and a number listed as other sources. Some of those specified are student fees, sales of farm

products, marketing and inspection fees, hospital fees and a wide variety of others.

TABLE II
REVENUE FROM OTHER AGENCIES
OKLAHOMA 1964-65

	Amount	Percent
Grants-in-Aid, Federal	\$ 17,196,435.39	8.92
Reimbursements, Federal	170,459,008.98	88.41
Reimbursements, Local subdivisions	642,062.66	.33
Private Sources	921,372.60	.48
Refunds	1,910,329.43	.99
Receipts from other State Agencies	6,879.80	.004
Transfers from Other State Agencies	1,193,857.01	.62
Other	469,779.66	.24
TOTAL REVENUE RECEIVED FROM OTHER AGENCIES	\$192,799,725.53	100.00

Source: Division of the Budget, Executive Department, State of Oklahoma, Schedule II, 1965.

Non-revenue receipts consist of retirement and personal fees, contributions, sales of foundation livestock, treasury transfers, and sales of machinery.

Tax Revenues

The sales tax produces the largest amount of revenue of the taxes listed in Table III. The tax is collected at the point of final sale on all consumer items except drugs. The 1957 legislature exempted feed used for livestock in farm production and the value of farm machinery traded in on replacement items. The 1965 legislature exempted agricultural fertilizer from the general sales tax and the 1967 Legislature exempted farm machinery. The use tax applies to items purchased outside the state that are otherwise subject to the sales tax.

The gross production tax was \$1.6 million in 1915-16, and is one of two state taxes in existence then that remain on the books. This tax is levied on production of all petroleum or other crude oil, natural gas, casinghead gas, asphalt, and all ores bearing lead, zinc, jack, gold, silver, copper and uranium. Lead and zinc mining has been curtailed in recent years by economic competition. Oil production, which supplies most of this tax, has been threatened by depletion of fields in recent years, but some new ones have opened and new techniques used to get more production from some which had closed or were producing a low volume. The 1964-66 biennial produced a healthy increase in this revenue, despite a depressed market, unstable prices, reduced drilling activities, and other restrictions. The increase occurred because of recodification and increased efforts of those collecting this tax.⁷

The income tax is the other present tax in existence in 1915-16 but only yielded \$1,200 that year. This is presently the largest single

⁷Oklahoma Tax Commission, Seventeenth Biennial Report (Oklahoma City, 1966), p. 135.

TABLE III
STATE TAXES BY SOURCE
FISCAL YEAR 1964-65

	Amount	Percent of Total
Sales Tax	\$ 66,018,746.80	21.89
Gasoline Excise	64,638,302.62	21.44
Income Tax	43,987,064.23	14.59
Gross Production	37,072,561.51	12.29
Insurance Premium Tax	19,520,892.81	6.47
Cigarette Tax	19,094,616.20	6.33
Motor Vehicle Tax	11,205,274.17	3.72
Inheritance and Estate	8,635,238.58	2.86
Alcoholic Beverage Excise Tax	7,162,146.99	2.38
Beverage	6,731,300.90	2.23
Special Fuel Use Tax	4,614,384.27	1.53
Franchise Tax	4,100,300.35	1.36
Use Tax	2,967,498.06	.98
Tobacco Products Tax	2,303,678.03	.76
Gift Tax	970,967.82	.32
Fuels Excise	869,241.94	.29
Petroleum Excise	674,277.18	.22
Rural Electric Cooperative Tax	594,503.39	.20
Bus Mileage Tax	162,928.33	.05
Freight Car Tax	211,554.31	.07
TOTAL TAXES	\$301,535,478.38	100.00

Source: Report by Division of the Budget, Executive Department, State of Oklahoma, Schedule II, 1965.

source of revenue for the general fund and amounted to \$57.6 million in fiscal 1965-66, an increase of 16 percent over the previous year. Withholding was started in 1961 and, along with other measures, has provided more revenue from this source in addition to that due to growth in income. The income tax laws apply to individuals, estates, trusts, and corporations. The individual income tax rate is 1 percent of the first \$1,500 taxable income and ranges up to 6 percent for taxable income over \$7,500. The corporation income rate is 4 percent of the net income derived from property owned and business done within the state.

The fuels excise tax, gasoline tax, and special fuel use tax are all collected by the Motor Fuel Division of the Tax Commission. The gasoline tax of 6.58 cents per gallon is included in the pump price paid by consumers. The tax is levied under separate sections of Title 68, Oklahoma Statutes, providing for 4 cents, 1 cent, 1 cent, $\frac{1}{2}$ cent, and $\frac{8}{100}$ cents based on designated funds. Other sections of the same Title provide for the same distribution on special fuel use except the last fraction of a cent. The purpose of this tax is to collect on fuels consumed by commercial vehicles using state highways. Exemptions are allowed on $4\frac{1}{2}$ cents per gallon for gasoline used in agricultural production. Certain exemptions are also made for U. S. Government use, aircraft fuels and fuels used by school districts. Agriculture and aircraft exemptions are based on non-highway use while the others are governmental unit exemptions.

Since 1965 the cigarette tax has been 8 cents per pack but the 1968 Legislature raised the levy to 13 cents. An equivalent increase in the tax of 4 mills each on little cigars and the \$20 per thousand on cheroots and stogies was also levied.

The motor vehicle excise tax is collected on each new or used car at the time a title is issued or changed. The levy on new vehicles is 2 percent of factory list price and an equivalent scale is applied to used vehicles according to age.

Estate taxes are collected from the estate of any person who dies while a resident of Oklahoma. All real or personal property, tangible or intangible, of the deceased is included in the estate. The gross value of the estate is determined by including the value of the homestead in excess of \$5,000, gifts made two years prior to death, certain transfers, joint tenancy property and life insurance policies payable to the estate (also the excess over \$20,000 paid to all other beneficiaries). After determination of the gross value certain deductions are allowed.⁸ The net value is taxed at 1 percent on the first \$10,000, 2 percent on the next, 3 percent on the next \$20,000, 4 percent on the next \$20,000, 5 percent on the next \$40,000, 6 percent on the next \$150,000, and up to 10 percent on \$1,000,000 or more.

The Oklahoma gift tax applies to real and personal property when transferred as gifts. The purpose is to salvage some of the tax that would have been collected as estate taxes had the gift not been made. The first \$3,000 to each donee for each year is not taxable. The tax rate is the same as for the estate tax.

The beverage tax on beer is \$10 per barrel and has been in effect at the same rate since 1933. Alcoholic beverages have been taxed since 1958 when prohibition was repealed. The tax rate is \$2.40 per gallon on

⁸ Cecil D. Maynard, D. B. Jeffrey, and Glenn E. Laughlin, Estate Planning, Oklahoma State University Circular E-726 (Stillwater, 1962), pp. 39-41.

distilled spirits, 36 cents per gallon on light wine, 50 cents per gallon on wine with more than 14 percent alcohol and 75 cents per gallon on sparkling wine.

The insurance premium tax is collected by the State Insurance Commission. A tax of 4 percent on the premiums collected by fire insurance companies is levied with a portion allocated to the Insurance Commission Fund and the bulk of the revenue going into the firemen's relief pension fund. Another 4 percent on premiums of companies, other than fire insurance, on automobile liability and property damage, burglary and theft insurance is levied. Up to \$600,000 annually from this revenue goes to the police pension and retirement funds of the cities and towns of the state. Other fees and taxes on specific insurance activities are collected by the Insurance Commission.

The rural electric cooperatives of the state pay monthly 2 percent of gross receipts from sale of electric energy in lieu of ad valorem taxes. The Tax Commission gets 5 percent of the total for collecting the tax and the remainder is allocated to the school districts according to mileage of the rural electric lines in them. The franchise tax is \$1.25 per \$1,000 invested or employed in Oklahoma by corporations. The bus mileage tax is collected from public bus routes and is divided among state, counties and towns for highways and streets.

Oklahoma Tax Commission

The 1931 Session of the Legislature of Oklahoma created the Oklahoma Tax Commission and charged this body with the collection of all state taxes. As of June 30, 1966, the Tax Commission administered approximately 96 percent of the revenue from taxes, licenses and fees levied for the

state. Some fees and licenses are collected by other departments of the state government.⁹ The Tax Commission prepares a monthly apportionment of revenue collections and distributions to the various state funds and to other units of government, as provided by law.

Other duties have been imposed on the Commission over the years. Among these is assistance to the State Board of Equalization in the Ad Valorem tax assessment of railroad and public service corporation property. Certain assistance is also provided county assessors in local assessment of property. The Commission also maintains a continuing study of tax laws and recommends improvements to the legislature.

Revenues are apportioned to various funds by the Tax Commission and other agencies all of which are designated to appropriate funds by the Budget Division as shown in Table IV. The General Revenue Funds constitute the amount which is usually publicized as each session of the legislature divides this among various agency and institution requests.

Assistance funds, the largest, includes both federal and state monies going to public welfare and related services. Special Revenue Apportionment is composed mostly of revenues that go to local units of government. County road funds are in the special group while state roads are financed from Highway Funds. Over half the revenue in Sinking Funds is contributed by that portion of the cigarette tax which is earmarked to retire public institution building bonds.

⁹Oklahoma Tax Commission, Seventeenth Biennial Report (Oklahoma City, 1966), p. 131.

TABLE IV
STATE REVENUE BY TYPE OF FUND FOR FISCAL YEAR
ENDING JUNE 30, 1965 - OKLAHOMA

Funds	Amount	Percent
General Revenue Funds	\$138,711,533.65	22.57
Revolving Funds	26,208,956.33	4.27
Highway Funds	102,615,507.30	16.69
Special Funds	72,674,483.02	11.82
Land Grant Funds	1,117,954.94	.18
Assistance Funds	158,187,785.92	25.73
Sinking Funds	5,447,129.69	.89
Trust and Agency Funds	22,649,912.95	3.68
Special Revenue Apportionment	87,121,267.99	14.17
TOTAL	\$614,734,531.79	100.00

Source: Division of the Budget, Executive Department, State of Oklahoma, Schedule II, 1965.

State and Local Revenues

State revenue and expenditures were presented above without any explanation of total revenue and general revenue. At this point it will be helpful to distinguish between these and present a brief review of state revenue in relation to local revenue and expenditures. In order to have comparable data it is necessary to use information for the fiscal year ending June 30, 1962. A summary of state and local revenue for that period is presented in Table V.

TABLE V
SUMMARY STATE AND LOCAL REVENUE
BY SOURCE OKLAHOMA 1962

Item	State and Local Gov. Total Amount	State Amount	Local Amount
(Thousands of Dollars)			
Total Revenue	828,672	550,198	399,627
General Revenue only	752,874	521,712	352,315
Intergovernmental Revenue	161,962	151,341	131,774
From Federal Government	161,962	148,724	13,238
From State Government			118,536
Revenue from own sources	666,710	398,857	267,853
General Revenue	590,912	370,371	220,541
Taxes	458,139	307,881	150,258
Property Tax	142,916	---	142,916
Charges and Misc.	132,773	62,490	70,283
Utility Revenue	46,180	---	46,180
Insurance Trust Revenue	29,618	28,482	1,132

Source: U. S. Census of Governments, 1962, Vol. VII. No. 36, Table 16, p. 23.

General revenue as used here includes all revenue except that raised through insurance trust funds and utility revenue of local units of government. Revenue from own sources is the amount raised by the particular governmental unit involved without considering revenue from other

units of government. General revenue from own sources excludes transfer from other units as well as utility and insurance fund revenues.

The state government raised 72.8 percent of total revenue from its own sources in fiscal 1961-62. Local units of government in Oklahoma raised 67 percent of their total revenue through their own sources. Of the total revenue of \$666.7 million raised from own sources by state and local governments for this fiscal year, 59.8 percent was state revenue and 40.2 percent local. Table VI shows selected revenue items for Oklahoma compared with the national average. Another method of comparison is based on income. General revenue from all sources per \$1,000 personal income in Oklahoma amounted to \$161.42 or 122 percent of average. Revenue from federal sources measured in the same manner amounted to \$34.73 or 194 percent of average for the states. Revenue raised by state and local sources at \$126.70 per \$1,000 income was 111 percent of average. While property taxes were relatively low on a per capita basis they were 71 percent of the average at \$30.64 per \$1,000 personal income. These measures reflect the lower personal income per capita in Oklahoma which was only 81 percent of the national average in 1962.

Another way of comparing the performance of Oklahoma with other states in the nation is her ranking in relevant factors connected with revenues. These are shown in Tables V, VI and VII of the Appendix. These comparisons are for 1962 state and local revenues. State revenue comparisons will be presented later for more recent years.

Local School Finance

The local school districts of Oklahoma receive half the revenue made available to all local units of government. Transfer of state and

federal funds largely account for this high proportion. The percentage of revenue allocated to local schools from different levels of government in Oklahoma are shown in Table VII.

TABLE VI
SUMMARY OF PER CAPITA GENERAL REVENUE UNITED STATES
AVERAGE AND OKLAHOMA - 1962

Item	United States (dollars)	Oklahoma (dollars)	Oklahoma as Percent of U. S.
All Sources	313.48	307.55	98
Federal Government	42.36	66.16	156
State and Local Gov. Sources	271.13	241.39	89
Taxes	112.62	187.15	84
Property Taxes	102.54	58.38	57
Non-property Taxes	121.08	128.77	106
Charges and Misc. Sources	47.50	54.24	114

Source: Census of Government, Vol. VII, No. 36, 1962.

The total revenue for common schools grew by 26 percent for the period shown while local revenue for this purpose increased by 14 percent, state revenue by 22 percent, and federal revenue by 135 percent. State dedicated or earmarked funds increased by only 12 percent while appropriated funds grew by 29 percent. Basic operational and equalization aid (labeled foundation and incentive aid for 1965-66), which makes

up about one-fourth of the state revenue, grew by 30 percent from 1963-64 fiscal to 1965-66. The growth in local revenue was due largely to an item, constitutional building fund, not included in the 1963-64 compilation. Excluding this fund, local revenue increased by only 5 percent.

TABLE VII
SUMMARY OF LOCAL SCHOOL FINANCES
BY SOURCE - OKLAHOMA, 1963-66

Source	Percent of Total		
	1963-64	1964-65	1965-66
Local Taxes	51.6	52.5	46.7
State Funds	41.1	40.1	39.7
Federal Funds	7.3	7.3	13.6

Source: Finance Division, Oklahoma State Board of Education.

The State Basic Operational and Equilization Aid which was used in Oklahoma for thirty years was based on a guaranteed teacher salary basis. The Thirtieth Legislature changed the qualification for aid to a per pupil allowance which is known as Foundation Aid. This amounted to approximately 80 percent of State Aid in 1965-66. The remaining 20 percent was distributed on an incentive basis to those districts which were willing to vote additional tax levies.¹⁰

¹⁰ Oklahoma State Department of Education, Thirty-first Biennial Report (Oklahoma City, 1966), pp. 218-219.

Table VIII shows a complete list of revenue sources for local schools in 1964-65 along with the amount and percentages of the total from each. Auto and farm truck licenses, gross production tax, Rural Electric Cooperative tax and school land earnings are state earmarked or dedicated revenues which together accounted for nearly 16 percent of the total school funds. Some sources argue that the first three are really local revenue since they are allocated according to county collections. Local schools receive 95 percent of the revenue collected in each county for auto and truck licenses. The same percentage of the Rural Electric Cooperative tax goes to local schools, and 10 percent of the gross production tax is returned to the county schools where collected.¹¹

State aid, as mentioned elsewhere, is listed in 1966 and subsequent fiscal years as Foundation and Incentive Aid. The growth in this source of revenue is discussed later but at this point it should be stated that it is growing faster than other state sources. If, as pointed out above, the first three dedicated sources are classed as local, the proportion of state funds to local schools would be about 26 percent. Since these funds originate through state sources, they should be counted as such; otherwise, it could be argued that all taxes are paid to some extent by local people.

Local revenue for school districts comes mainly from property tax levies. Each district has different millage levies that vary from 25 (a district with no sinking or building fund levy) to 67.75, with most of

¹¹Oklahoma Tax Commission, Seventeenth Biennial Report (Oklahoma City, 1966), pp. 32-34.

TABLE VIII

SOURCES OF REVENUE AND THE AMOUNT COLLECTED FROM EACH
SOURCE BY THE COMMON SCHOOLS OF OKLAHOMA
FISCAL YEAR 1964-65

Source	Amount	Percent of Total
Total Local	\$114,296,469	52.5
Ad Valorem Tax	66,860,637	30.7
County 4 Mill Levy	11,130,088	5.1
County Apportionment	871,561	.4
Intangible Tax	1,805,881	.8
Miscellaneous	2,263,268	1.0
Constitutional Building Fund	9,915,417	4.6
Sinking Fund	21,449,617	9.9
Total State	87,336,525	40.1
Auto License	28,613,001	13.1
Gross Production Tax	3,753,906	1.7
R. E. A. Tax	564,778	.3
Vocational Aid	644,090	.3
Special Education	666,842	.3
Free Textbooks	1,571,416	.6
State Basic Operational and Equalization Aid	48,522,013	22.3
School Land Earnings	3,000,461	1.4
Total Federal	15,962,749	7.3
Vocational Aid	1,945,684	.9
Indian Education	425,822	.2
Defense Education P. L. 864	1,295,137	.6
Maintenance & Operation P. L. 874	8,713,714	4.0
Building Aid P. L. 815	599,403	.3
School Lunch and Milk	2,982,989	1.4
GRAND TOTAL	\$217,595,744	100.0

Source: Finance Division, Oklahoma State Board of Education.

them in the thirty to fifty mill range.¹² Nearly all counties have a general fund levy of 25 mills with a few at 20. The difference is in sinking and/or building fund levies. In addition there is a countywide levy of 4 mills in all counties that is divided among the schools. Of course the size of the levy is more meaningful if related to assessed value but this is beyond the scope of this study. However, in Chapter VI the general level of assessed values will be briefly discussed.

Earmarked Revenues

Maxwell defines earmarking as a restriction imposed on the use to which a governmental revenue may be put.¹³ The legislative body may be required by statute or by constitutional provision to channel certain revenues to specified uses. A common method of earmarking is provision of special funds which are not included in the budget. This practice is followed in Oklahoma. Sometimes revenues that flow into the general fund have restricted use. Public finance authorities are quite often critical of earmarking, and there is some justification for this criticism. However, it seems rational to follow this procedure when there is a linkage of benefits received by particular users of a governmental service and the taxes collected from them. In the case of the tax on gasoline used in motor vehicles, the use of the tax for highway improvement somewhat equates payment for use of the road. Indirect pricing is the

¹² Oklahoma Municipal Surveys, Ad Valorem Tax Rates, 1964-65 (Oklahoma City, 1965).

¹³ James A. Maxwell, Financing State and Local Governments (Washington, D. C., 1965), p. 211.

term applied to this procedure. In some cases the linkage between cost and benefit may be accurate, yet earmarking may impair efficiency in budgeting.

Earmarking may be accomplished by pressure groups who wish to ensure a specific government expenditure be made from revenue outside the appropriation process. In this manner the periodic legislative scrutiny, evaluation, and voting of money is avoided. Assignment of all, or part, of the revenue from some well established tax accomplishes this purpose. The more powerful the pressure group and/or the more socially significant the expenditure, the more agreeable the legislature is to earmarking. Very often earmarking is associated with a needed and widely approved expenditure and a new and unpalatable tax. When Oklahoma introduced the sales tax it was earmarked for welfare expenditures.

Some defects of earmarking are that (1) it removes certain governmental revenues from periodic legislative control, (2) numerous earmarking formulas complicate administration and (3) it may result in abdication of essential duties by the legislative body. The third case is illustrated when finance of a general or collective function of government is segregated from other functions -- when earmarking does not meet the direct linkage test. Excessive use of earmarking and multiplication of special funds can build rigidities into the overall revenue system and create an imbalance between revenue and needs.

Earmarking can be provided by constitutional or statutory provision. Maxwell reported a compilation of information on the status of earmarking was made by the Tax Foundation in 1954.¹⁴ At that time only two states,

¹⁴Ibid., pp. 215-217.

New Jersey and Delaware, earmarked none of their revenue. Twenty-four states earmarked over half, and three states (Texas, Alabama and Louisiana) more than 80 percent. Constitutional earmarking was provided in thirty-five states in 1960. Michigan earmarked about 60 percent by such provision and Maxwell attributes the chronic fiscal crises in that state to the inflexibility of the revenue system.

Oklahoma had over 77 percent of total revenue earmarked or dedicated in fiscal 1965 (See Table IV). If revolving funds are excluded, then the proportion drops to about 73 percent. In fiscal 1965 there were forty-six different revenues channeled into these revolving funds for a total of \$26.2 million. Many of these, such as student fees, are justifiably allocated in this manner, and there is no evidence that they should be handled otherwise.

Highway funds are generally recognized by most public finance writers as a case of justified earmarking by nature of the linkage of costs and benefits. In Oklahoma these are made from gasoline taxes and allocated by formulas established by statutes. For instance, four cents of the total state gasoline excise tax per gallon is apportioned 70 percent to State Highway Fund, 22 percent returned to counties for highways, 5 percent returned to cities and towns for streets and alleys, and 3 percent to the Oklahoma Tax Commission.¹⁵ Another one cent is 100 percent for the Highway Fund.¹⁶ One cent and a half cent go entirely to counties,

¹⁵State of Oklahoma, Statutes, 1965 Supplement, Title 68, Sections 504 and 602.

¹⁶Ibid., Section 518.

but each is for different specified uses.¹⁷ Only .08 cents per gallon of the total tax finds its way into the general fund.¹⁸

The Special Fuel Use Tax of 4 cents per gallon is apportioned 72.75 percent to the State Highway Fund, 24.25 percent to counties and 3.00 percent to the Tax Commission. The county portion is for highways and bridges and is apportioned on the basis of population and area. Another cent goes to the State Highway Fund for farm to market roads, one cent to counties for mail and bus routes and one-half cent to counties for other uses.¹⁹ In the case of both gasoline and special fuels taxes, the apportionment to counties is by prescribed formula with road mileage and population the main factors.

The public assistance fund has been financed by earmarked funds from the sales tax and parts of the tobacco and motor excise taxes. Surpluses have accumulated in this fund but legislative efforts to divert them were unsuccessful. An explanation of how the legislature transferred functions to the Welfare Department and Commission to make use of these funds will be found in Chapter IV. With the growth in sales tax revenue and increased social security payments as replacement for old age assistance payments, legislators and other officials have used this as a politically feasible method of using these funds. Earmarking in this case does not meet the criteria of cost-benefits linkage.

Gross Production Taxes are partially earmarked since only 78 percent of the tax, except on natural gas, goes into the General Revenue Fund.

¹⁷ Ibid., Sections 523, 579 and 604.

¹⁸ Ibid., Section 521.

¹⁹ Ibid., Sections 704 and 706.

Counties in which these taxes are collected get 10 percent returned for highways and 10 percent for schools. Counties where the gross production tax on gas is collected share the same as above but the 78 percent goes to the State Teachers' Retirement Fund.²⁰

In addition to the gross production taxes going to local schools, 95 percent of the revenue from auto and farm truck licenses tags is earmarked for this use. The Rural Electric Cooperative tax is apportioned the same way. Another dedicated revenue is the earnings from state owned school lands. Three of these seem to meet the cost-benefit linkage quite well but there may be a question about the gross production as explained below.

Of the total revenue of \$372 million collected by the Oklahoma Tax Commission in 1965-66, \$154.7 million or 41.6 percent was apportioned to the General Revenue Fund.²¹ A total of twenty-three different sources of revenue contributed to this fund. The other 58.4 percent of collections was apportioned to twenty-five different funds as required by law. An example of general fund revenue used for specific purposes is the use of part of the cigarette tax for five different Oklahoma Public Building Funds. The amount of this revenue allocated to the general fund is much more than the earmarked portion.

The special funds used in Oklahoma may, in general, meet the requirements to justify earmarking. There might be a valid argument for putting all gross production revenue allocated to county schools, when collected, into the general fund and distributing it to schools on the

²⁰ Ibid., Sections 1004 and 1021.

²¹ Oklahoma Tax Commission, Seventeenth Biennial Report (Oklahoma City, 1966), pp. 24-25.

same basis as other state aid. There might be a question as to the formulas used in apportioning highway revenue to counties. Another point associated with these funds is the fact that some worthy expenditures are not given an equal opportunity for dependable sources of revenue that might grow along with needs.

Earmarking of funds in Oklahoma was questioned by some legislators and other officials in early 1968. In an opinion requested by a legislator concerning earmarked county highway funds, the Attorney General ruled that these funds could not be so designated for a period longer than two and one-half years without legislative reconsideration. The State Supreme Court took jurisdiction in the matter and promised a decision before the legislature convenes in 1969.

Recent Tax Developments

All of the tax laws administered by the Oklahoma Tax Commission, except those relating to non-intoxicating and alcoholic beverages, and most of those relating to the licensing and registration of motor vehicles, were either revised, amended and re-enacted, or were re-numbered by the 1965 Legislature.²² Most of these revisions provided better control in administering the laws but some of them may result in more net revenue. Numerous changes in the income tax law designed to plug loop holes may do just that as evidenced by increased collections.

House Bill No. 1118, page 848, (Sections 2701-2706) passed by the 1965 Legislature authorized incorporated cities and towns to levy and collect certain taxes except ad valorem property taxes. By the end of

²²Ibid., p. 1.

1966, thirty cities and towns had voted on and passed a 1 percent sales tax under this provision. During 1967, 52 other cities and towns had levied such a tax.²³ The law provides that the cities may contract with the Oklahoma Tax Commission to collect and pay over to such cities and towns the taxes for an agreed consideration. This enables the tax to be collected with more convenience to those paying and more efficient administrative costs to the governing units involved.

Many of the towns that now have sales tax are smaller rural towns. Regardless of size or the area of the state in which they are located, these new taxes carry implications for the rural residents around them. Those who trade in these cities or towns will contribute to the revenue without the benefit of redistribution that occurs in the case of the state sales tax. These people may not benefit from the expenditure of the tax revenue, depending upon the particular use made of it. Although the city sales tax is raising revenue for specific needs in local units and thereby relieving the state of this responsibility, it is also cutting into this avenue as a possible source of expanding state revenues. Likewise, property owners in and out of these towns are not likely to see any relief from property tax except that possible increases without the sales tax may be avoided. To the extent that the sales tax is also paid by non-property owners, there might be an implied relief of the heavy load of local revenue borne by the property tax.

The last major new statewide tax was the enactment of the alcoholic beverage tax in 1958. In 1965, the cigarette tax was increased from 7 cents to 8 cents per pack and the tax on little cigars was increased

²³ Oklahoma Tax Commission, Sales Tax Report Form (Oklahoma City, 1968).

from 3.5 mills to 4 mills each. The tax on cheroots and stogies was increased from \$10 per thousand to \$20 per thousand.²⁴ The alcoholic beverage tax raised \$6.9 million in 1965-66 which was down from \$7.2 million the previous year. The cigarette tax raised \$22.3 million and \$19.1 for the respective periods which reflected the increased rate.

The 1967 Legislature passed House Bill No. 532 which may provide substantial revenue in the future. Generally called the "unclaimed property act", this law provides for the state to acquire unclaimed tangible and intangible property in accord with conditions prescribed in the law. The revenue obtained is first deposited by the Tax Commission in the Unclaimed Property Fund. The act prescribes procedure for handling this fund through the Unclaimed Property Board which is composed of the Governor, Lieutenant Governor, Secretary of the Tax Commission, Attorney General, and State Treasurer. The Board may transfer money to the Treasurer for the general fund under certain conditions. The extent of this contribution is debatable and largely underterminable until the law has operated for a few years.

Another act was passed by the same session which is designed to improve property tax assessments in the state. Senate Bill No. 141, as passed in 1967, requires revaluation of all taxable property within each county by the respective county assessor by January 1, 1972. The law also provides for comprehensive revaluation every five years after that date. Each assessor must have started the revaluation program by January 1, 1969. The act also requires proper budgets be granted assessors

²⁴Layton S. Thompson, Recent Developments in Taxation in the Great Plains, Montana Agricultural Experiment Station Bulletin 608 (Bozeman, 1966), p. 36.

for the undertaking. Real property must be physically inspected and examined sufficiently to determine an accurate valuation. County assessors may request assistance from the Tax Commission where and when needed in this valuation but the assessor is not bound by their valuations. There was speculation in early 1968 that some parts of the act would be changed by amendments. If this act accomplishes the expectations of its sponsors, local government revenue in general should increase.

Tax Revenues Compared

Before comparing Oklahoma data concerning state and local revenue with other states it will be helpful to examine national figures on tax revenue. Table IX shows a summary of U. S. totals for state and local taxes compared to Oklahoma data. As pointed out in the preceeding chapter Oklahoma raises more state and local taxes through the state than the national average with 67 percent from this source in 1962. In 1965-66 Oklahoma raised 66 percent of state and local taxes at the state level while the national average was 52 percent.

Oklahoma has 32 percent of total state and local revenue coming from the property tax compared to 43 percent for the U. S. average. Non-tax revenue as cited elsewhere is a much higher percentage of total revenue raised in Oklahoma than for other states of the nation and the proportion in each instance has changed little since 1962.

A more detailed comparison of Oklahoma with the national situation in 1962 is presented in Table V of the Appendix. Table X presents per capita amounts of revenues and per \$1,000 income for Oklahoma compared with the U. S. averages. In the third column is the percentage Oklahoma is of the national average. Oklahoma generally ranks higher when the

comparisons are made on the basis of personal income than when on a per capita basis. This reflects the ranking of Oklahoma in income per capita and population as shown in Table VI of the Appendix. For instance, Oklahoma ranks number 40 in taxes per capita but in taxes per \$1,000 personal income rises to 22 among the states.

Oklahoma pays more non property taxes by both measures than the national average -- ranking 10th on a per capita basis and 7th per \$1,000 personal income. Charges and miscellaneous sources place Oklahoma in 18th place on a per capita basis and 8th measured by income.

When employment and payrolls of state and local governments in Oklahoma are compared to U. S. totals, the rankings are fairly consistent at average levels except in payrolls. The state is 29th in total state and local payrolls in Table XI. However, the median annual pay rate in the state is below average and ranks the state as number 39 among the 50 states and the District of Columbia. Thus, Oklahoma is much below average in pay scales for public employees in total.

State and local employees per 10,000 inhabitants are about average for all functions as shown by the rankings. The state ranks higher in number of employees in education and highways - 21st place in both instances. Employees in local schools only and hospitals place the state in 24th place.

Table XII shows a comparison of Oklahoma per capita revenues with some neighboring states. This state ranks third among the five in terms of total revenue raised per capita. Colorado raised 25 percent more revenue per capita than Oklahoma. This state receives more federal revenue than any of the other four. In collecting revenue from own sources, Oklahoma is also in third place behind Colorado and Kansas.

However, in tax revenue raised per capita, Missouri noses Oklahoma out for third. Only Arkansas has less property tax per capita than Oklahoma.

TABLE IX
STATE AND LOCAL TAX REVENUE BY GOVERNMENT
AND TYPE OF TAX U. S. AVERAGE AND
OKLAHOMA FISCAL ENDING
JUNE 30, 1966

	U. S.	Percent of Total	Oklahoma	Percent of Total
(Amounts in Millions of dollars)				
Level of Government				
Total	56,878	100	590.1	100
State	29,695	52.2	388.7	65.9
Local	27,183	47.8	201.4	34.1
Type of Tax				
Property	24,591	43.2	191.1	32.4
General Sales and Gross Receipts	9,403	16.5	112.1	19.0
Motor Fuels	4,658	8.2	75.2	12.7
Individual Income	4,920	8.7	57.6	9.8
Corporation net income	2,053	3.6		
Motor Vehicle and Operators' License	2,334	4.1	50.7	8.6
All Other	8,919	15.7	103.4	17.5

Source (U. S.): Bureau of Census Quarterly Summary of State and Local Tax Revenue, October 1966.

Source (Oklahoma): Government Finances in 1965-66, G. F. 13, p. 31.

TABLE X
STATE AND LOCAL GOVERNMENT REVENUES IN OKLAHOMA
COMPARED TO U. S., 1962

Item	United States	Oklahoma	Oklahoma as percent of United States
Per capita general revenue (dollars) from --			
All Sources	313.48	307.55	98
Federal Government	42.36	66.16	156
State and local government sources	271.13	241.39	89
Taxes	223.62	187.15	84
Property Taxes	102.54	58.38	57
Non Property Taxes	121.08	128.77	106
Charges and Miscellaneous sources	47.50	54.24	114
General revenue per \$1,000 of personal income from --			
All sources	132.47	161.42	122
Federal Government	17.90	34.73	194
State and Local government sources	114.57	126.70	111
Taxes	94.49	98.23	104
Property Taxes	43.33	30.64	71
Non Property Taxes	51.16	67.59	132
Charges and Miscellaneous sources	20.07	28.47	142

Source: Census of Governments, Vol. VII, No. 36, 1962.

TABLE XI
EMPLOYMENT AND PAYROLLS OF STATE AND LOCAL
GOVERNMENTS, OCTOBER - 1962

Item	United States	Oklahoma	Ranking of Oklahoma
Total employment (full-time and part-time) number of employees	6,849,339	93,685	25
October payrolls (thousands of dollars)	2,619,254	28,308	29
Median annual pay rate, full-time employees (dollars)	4,841	4,183	39
Full-time equivalent number of employees	5,957,967	78,495	26
Per 10,000 inhabitants for			
All functions	320.6	320.7	27
Education	146.9	159.7	21
Local schools only	124.5	127.9	24
Highways	28.2	34.2	21
Hospitals	33.0	30.7	24

Source: Census of Governments, 1962, Vol. VII, No. 36, p. 8.

TABLE XII
SELECTED PER CAPITA STATE AND LOCAL REVENUE,
SELECTED STATES, 1962

	Oklahoma	Kansas	Colorado	Missouri	Arkansas
Total Revenue	338.51	362.20	424.91	305.83	250.57
General Revenue	307.55	326.28	372.98	272.16	227.99
From Federal	66.16	42.27	60.38	48.69	55.00
Revenue from own Sources	272.35	319.93	364.53	257.14	195.57
General Revenue from own Sources	241.39	284.02	312.60	223.48	173.00
Taxes	187.15	234.13	251.30	189.67	138.35
Property	58.38	131.28	119.88	80.83	39.11

Source: Census of Governments, 1962, Vol. VII, Table 16.

Trends in State Taxes

Collections of the Oklahoma Tax Commission increased by 85 percent from fiscal year 1954-55 to fiscal 1965-66. The data for each year during this interval is shown in Table XIII with amounts rounded to the nearest dollar. Of the 1965-66 collections \$3,609,681 represented city sales taxes. Adjusting for this still leaves a growth of 83 percent in state tax collections for the period. Collections for 1966-67 totaled \$399,801,496 which included \$13,633,518 for city sales taxes.²⁵ The

²⁵Oklahoma Tax Commission, Annual Report (Oklahoma City, 1967), pp. 6-7.

alcoholic beverage tax which started in 1959 was the only new tax introduced during the period. The trend for major individual state taxes is shown in Table IV of the Appendix.

TABLE XIII
COLLECTIONS OF THE OKLAHOMA TAX COMMISSION
FISCAL YEARS 1954-55 TO 1965-66

Year	Amount (dollars)	Year	Amount (dollars)
1954-55	201,204,068	1960-61	269,161,015
1955-56	219,264,528	1961-62	295,086,230
1956-57	224,559,842	1962-63	309,259,760
1957-58	234,381,378	1963-64	324,986,476
1958-59	243,000,675	1964-65	338,450,879
1959-60	261,433,044	1965-66	371,641,240

Source: Oklahoma Tax Commission, Seventeenth Biennial Report, Oklahoma City, 1966.

The Sales Tax, which yields the largest amount of revenue in the state, increased by 38 percent in the eight fiscal years ended in 1962. Harris projected an increase of 48 percent from 1962 to 1970.²⁶ Collections by the Tax Commission increased 29 percent by 1966 which covers half the projected period. Part of this increase was for city sales

²⁶ Robert Harris, Income and Sales Taxes: The 1970 Outlook (Chicago, 1966).

tax collected. After allowing for this, the projected figure appears realistic although perhaps on the conservative side.

State income tax collections made a rapid growth from 1954 to 1962--increasing by 153 percent. They increased by nearly 32 percent during the four years from 1962 to 1966, which indicates a slower rate of growth. However, the rate of increase from 1965 to 1966 was greater than for the three previous years. Harris projected an increase near 70 percent for the eight year period 1962-1970.²⁷

Harris also projected the increase in gasoline taxes from 1962 to 1970 to be nearly 38 percent.²⁸ The growth for the four year period 1962-66 was 17 percent compared to a growth of 30 percent for the eight previous years. Here again, the projection seems to be consistent with actual occurrence.

Gross production collections increased by only 10 percent for the eight year period 1954-62, but they show a growth of 16 percent for the four years following that. This tends to indicate that the projection made by Harris at 21 percent increase by 1970 may be an underestimate of growth.²⁹ However, if oil depletion should continue and no new fields are discovered, this source of revenue might well decline in the future. Much of the sustained oil production in recent years has been due to new methods of recovery from old fields.

Motor vehicle license collections increased by 26 percent in the four years following 1962 -- almost equaling the 1970 projection of

²⁷Ibid., pp. 21-23.

²⁸Ibid., p. 41.

²⁹Ibid., p. 58.

30.6 percent increase made by Harris.³⁰ This revenue had increased by 53 percent for the eight years up to 1962.

Motor Vehicle Excise Tax made a much faster growth during the four years following 1962 than for the period before that year. No separate projection is available for 1970 but with a 57 percent increase in collections for the four years since 1962, this tax promises to be much larger by 1970.

Cigarette and Tobacco Taxes increased by 85 percent from 1954 to 1962 but the rate of increase was only 21 percent for the four years after 1962. Harris projected these taxes to increase 30.4 percent by 1970.³¹ A part of the increase is due to higher rates.

The Beverage Tax is collected on beer in Oklahoma. Collection increased by only 4 percent from 1954 to 1962, but grew by 14 percent during the four years following. The Alcoholic Beverage Tax has been collected since 1959-60. Collections declined after the first year but have increased by 15 percent over what they were in 1962. Harris' projection of these combined taxes was for a 15.9 percent increase by 1970.³² The present rate of growth indicates the projection was too low.

Inheritance and Estate Taxes have increased by 69 percent since 1962 and had grown by 122 percent in the preceeding eight year period. The total collection of \$11.4 million in 1965-66 exceeded the projected \$10.5 million for 1970 made by Harris.³³

³⁰Ibid., p. 55.

³¹Ibid., p. 36.

³²Ibid., p. 41.

³³Ibid., p. 56.

Local Revenue Trends

Trends in local taxes and other sources of revenue are not as easily established as those at the state level. As pointed out previously, the data are not available by counties for each year. Tax Commission reports contain annual assessed values of property for each county over a period of years but other information is lacking. This leaves the Census of Governments as the best source of comparable data and this information is available only for 1957 and 1962. Table XIV shows the change in revenue over this five year period.

TABLE XIV
OKLAHOMA LOCAL GOVERNMENT REVENUES
FOR 1957 AND 1962

Item	1957	1962	Percent Increase
(Thousand Dollars)			
Total Revenue	283,259	410,777	45.0
General Revenue	246,901	352,312	42.7
Intergovernmental	95,882	131,774	36.0
From Fed. Gov.	5,464	13,238	142.3
From State Gov.	90,418	118,536	31.1
Revenue from own Sources	187,377	267,850	42.9
General Revenue from own Sources	151,019	220,538	46.0
Taxes	110,798	150,258	35.6
Property Taxes	105,217	142,916	35.8

Source: Census of Governments - Oklahoma, 1957 and 1962.

These short-term trends reveal that local revenue raised from local sources is consistent with the increase in total revenue. However, tax revenue is not rising as fast percentage wise as other sources of revenue. The percentage of revenue from federal sources rose sharply, but it amounts to only 10 percent of the total intergovernmental transfers. The low percentage growth in revenue from state sources is quite surprising. This trend can be extended to 1966 by fabricating two other sources of data together with the above.

The Tax Commission report shows apportionments to local governments by that body for 1965-66. The Finance Division of the State Board of Education compiles a complete tabulation of revenue sources for local schools for each year. By combining these two sources and adjusting for differences in these and census data, an estimate of \$156.3 million is made for state revenue received by local governments in 1966. Comparing this estimate with the \$118.5 million as shown in Table XIV reveals a 31.9 percent increase for the four year period 1962-1966. Thus, the rate of increase for the four years was about the same as for the five previous years. The actual increase to local schools for the same period was 38.8 percent leaving an estimated residual increase of 18.9 percent for other functions.

Data somewhat comparable with that presented in Table XIV show general revenue for all local governments in 1966 at \$485.3 million -- an increase of 38 percent during the four years. Revenue from federal sources for local governments in the state totaled \$18.6 million in 1965-66, or an increase of 40 percent for four years. This is a much slower rate of growth than for the previous five years. Local revenue

raised from own sources at \$298.3 million had increased by 32 percent during the period, or about the same rate of increase as state revenue.

In summary it appears that local revenues increased at a faster rate than state revenues until 1962. The increase in local revenues from state sources for functions other than schools is consistent with increases in state collections from which these apportionments are made. The growth in state assistance for local schools was at a faster rate during 1962-66 than for the five previous years. With a slower relative rate of growth in state revenue this implies a larger proportion of state general revenues going to common schools.

CHAPTER IV

STATE AND LOCAL EXPENDITURES

In the preceeding chapter different revenues and their allocation to various funds were presented. Expenditures differ from revenues collected at different levels of government due mainly to inter-governmental transfer of funds. These transfers may be allocations from a higher unit to a lower one or there may be transfers within a particular level of government. Deficit financing also causes larger expenditures than revenue but this is not permissible in Oklahoma. Then there are also surplus accumulations in some funds causing funds to exceed expenditures. However, the primary reason for examining expenditures apart from revenue is to compare the share of total expenditures going to each function. By this comparison the public is not only able to determine if their desired functions are getting a just portion but it also serves as a check on over all expenditures. Another point is that expenditures reveal the gap between tax revenues and total revenues which shows the relative importance of non tax revenue sources.

This chapter will present Oklahoma state expenditures according to broad functions along with a discussion of activities under each group of functions. Detailed explanations will be given about the expenditures for the major functions. State and local expenditures will be grouped according to functions and the respective parts contributed by state and local governments shown separately. State and local expenditures for

selected functions will be compared with neighboring states. The growth of these various expenditures will also be discussed. But, before presenting expenditures, a brief explanation of budget procedure in Oklahoma will be given.

State Budgeting

After revenues are allocated through proper channels, the funds are expended within the limitations of budgets for agencies and institutions. The Budget Division consolidates the approved agency and institution budgets into an overall system for controlling expenditures within estimated revenues and approved budgets. It is not intended to present any precise discussion of budgeting procedure in this chapter, but, rather to give a general notion of channeling state expenditures once the revenues have been allocated.

Each time the Oklahoma Legislature convenes there is considerable publicity devoted to the budget requests. This is particularly true concerning the presentation of the Governor's budget which is the amount of funds the Budget Division of the Executive Department has designated for individual requests from the general funds. Misconceptions are usually left with the general public from publicized statements relative to the budget presented to the legislature. For instance, when one reads that the Governor presented his \$177 million budget to the State Legislature, the impression is that this represents total expenditures of the state government. Another misconception arises when individual segments of the budget are discussed such as statements that 70 percent of the \$177 million is for education.

These misconceptions are due to the structure of the state revenue and allocation system. The use of dedicated or earmarked funds as discussed in Chapter III eliminates these funds from the general budget request presented to the legislature unless that body decides to change procedures which it has established in the past. Thus, in 1964-65 the legislature divided \$138.7 million among the requests made for appropriations from the general revenue funds which amounted to 22.57 percent of all state expenditures for that same year.

State Expenditures

A summary of state expenditures by functions is shown in Table XV. In this context the identity of the general budget is obscured since some of the functions listed receive funds both by legislative appropriation and from earmarked revenue. The expenditures summary of the budget is in more detail than that presented in the table. It shows nine different items such as personal services, travel, etc., for which each function's expenditures may be made. The functions are also further itemized to show administrative and other divisions as well as line expenditures made in each division. The major functions will be briefly explained in the following discussion.

General government expenditures include legislative, executive, administrative and judicial expenses. Legislative expenditures including the legislative council amounted to \$1.8 million. Executive functions include the Governor's office, Economic Opportunity Program, Lieutenant Governor, Budget Director, and Secretary of State. Total executive expenditures were \$.6 million. Administrative functions include a number of State Boards as well as State Auditor and Treasurer with a combined

TABLE XV
SUMMARY OF EXPENDITURES MADE THROUGH TREASURY FUNDS
BY STATE AGENCIES FOR THE FISCAL YEAR
ENDED JUNE 30, 1965

Function of Government	Amount	Total of Percent
GENERAL GOVERNMENT	\$ 12,945,210.76	2.10
EDUCATION		
Higher Education	94,575,944.02	15.35
Common School Education	96,730,490.98	15.70
Libraries and Museums	<u>609,088.53</u>	<u>.09</u>
TOTAL EDUCATION	\$191,915,523.53	31.14
PUBLIC HEALTH & MEDICAL ASSISTANCE	8,318,191.06	1.35
MENTAL HEALTH	11,232,136.01	1.82
PUBLIC WELFARE	205,738,845.71	33.39
PUBLIC SAFETY & DEFENSE	9,609,916.85	1.56
HIGHWAYS		
State Highways	107,906,002.02	17.51
Apportioned to Local Highways	43,557,355.83	7.07
Apportioned to Turnpike Authority	<u>1,000,000.00</u>	<u>.16</u>
TOTAL HIGHWAYS	\$152,463,357.85	24.74
REGULATORY SERVICES	8,329,253.09	1.35
CONSERVATION	<u>11,269,282.42</u>	<u>1.83</u>
TOTAL EXPENDITURES	<u>\$611,821,717.28</u>	<u>99.28</u>
TOTAL PAYMENTS ON BONDED DEBT	<u>4,458,342.71</u>	<u>.72</u>
TOTAL EXPENDITURES AND PAYMENTS ON BONDED DEBT	<u>\$616,280,059.99</u>	<u>100.00</u>

Source: Division of the Budget, Executive Department, State of Oklahoma, Schedule I, 1965.

expenditure of \$9 million. Judiciary expenditures were \$1.5 million for the fiscal year shown here. The cost of all general government functions was only about 2 percent of total state expenditures for fiscal 1964-65.

Total state expenditures for education as presented here were about 31 percent of the state total as contrasted to the higher percentage of general revenue appropriated for this purpose. The amount shown in Table XV for higher education does not include certain federal funds nor contractual arrangements, but does include student fees and funds from other sources outside the general appropriations. The amount shown for common schools includes some federal appropriations. Of the total amount shown, \$4.2 million was in direct expenditures by the state with the remainder being allocated to local subdivisions. A later section will discuss educational expenditures in more detail.

Public health and medical assistance expenditures include operation of the State Health Department which receives \$6.3 million of the \$8.3 million total for this function. Over half the Health Department expenditures are payments to city and county health units. About \$2 million of the total was for operation of Oklahoma General Hospital and two T. B. Sanatoriums.

Mental hygiene expenses include costs of administering the Mental Health Department and four mental hospitals in the state. About 68 percent of the expenditures for this function came from general revenue appropriations with the remainder from dedicated revenue and other sources.

Public welfare expenditures as mentioned elsewhere, include more than public assistance programs. This is one reason why this function places Oklahoma as the leading state in public welfare expenditures.

Included in this group are Charities and Corrections, Employee Retirement System, Veterans Department, and a number of commissions and boards related to human resource development. State training and correction schools and institutions for retarded children are also under public welfare. The above functions took nearly 16 percent of total welfare expenditures in 1964-65. In addition, retirement and compensation payments of one kind or another share in the funds expended under this function. Aid to dependent children, usually considered a controversial function of welfare, consumed 14 percent of the total expenditures of this department. Combined assistance to the aged amounted to over half the total expenditures. This part of welfare programs has not been under the criticism pointed at other types of aid.

Public safety and defense expenditures include the functions of the Adjutant General, state police, penitentiary, reformatory, and related boards. Institutional costs comprise 42 percent while administrative costs take the remainder of expenditures for this group of functions.

State highways received nearly \$108 million in expenditures for the fiscal year discussed here. County roads received \$36 million of state funds while cities and towns were allocated nearly \$7.5 million for this period. Thus, all local highways accounted for 28.6 percent of all state expenditures for highways. Apportionment to counties comes from gasoline and special fuels tax, gross production tax, commercial vehicle licenses and bus mileage taxes. Cities and towns get some apportionment from the latter two sources above, the alcoholic beverage tax, and gasoline taxes.

Regulatory services cover a wide range of services and involve a number of agencies and boards. The largest expenditure is for operation of the Insurance Commission which expended nearly 69 percent of the total

in this grouping of functions. The Corporation is the next largest recipient of funds in this group, accounting for 15 percent of the total. The remaining 16 percent of the expenditures are distributed among eighteen different boards, commissions, or departments. None of these regulatory services are connected with the State Department of Agriculture which is covered in the conservation group.

In addition to the Department of Agriculture, the conservation group includes the Oil Compact Commission, Wildlife Commission, Petroleum Experiment Station, Planning and Resources Board, Soil Conservation Board, and Water Resources Board. The Planning and Resources Board accounted for 42 percent of the conservation expenditures, 26 percent went to the Wildlife Commission and 21 percent to the Department of Agriculture. The Soil Conservation Board expended 8 percent of the total, leaving 3 percent for all others in this group.

The expenditures discussed above were for 1964-65. A summary of the same expenditures for fiscal 1966 (except a change in terminology) appears in Table XVI. Formerly all functions under the Welfare Commission were listed under the public welfare category. The 1966 budget changed the general grouping to Social Services and listed subgroups as shown in the table. Total expenditures increased by 10.7 percent from fiscal 1965 to 1966. Higher education expenditures increased by about the same percentage but common school expenditures went up 14.6 percent. As a result of these shifts the proportional shares changes from those for the previous year.

TABLE XVI

SUMMARY OF EXPENDITURES MADE THROUGH TREASURY FUNDS
BY STATE AGENCIES FOR THE FISCAL YEAR
ENDED JUNE 30, 1966

Function of Government	Amount	Percent of Total
GENERAL GOVERNMENT	\$ 12,918,437	1.90
EDUCATION		
Higher Education	101,722,702	14.94
Common School Education	141,029,116	20.72
Libraries and Museums	<u>951,001</u>	<u>.14</u>
TOTAL EDUCATION	243,702,820	35.80
PUBLIC HEALTH & MEDICAL ASSISTANCE	8,267,346	1.21
MENTAL HEALTH	12,380,152	1.82
SOCIAL SERVICES		
Veterans Services	1,621,790	.24
Department of Public Welfare	183,826,251	27.01
Public Employees Retirement System	8,870,780	1.30
Employment Security Commission	21,211,259	3.12
Other Social Services	<u>315,389</u>	<u>.04</u>
TOTAL SOCIAL SERVICES	215,845,470	31.71
PUBLIC SAFETY & DEFENSE	11,386,121	1.67
HIGHWAYS:		
State Highways	105,926,786	15.56
Apportioned to Local Highways	45,795,132	6.73
Apportioned to Turnpike Authority	<u>1,000,000</u>	<u>.15</u>
TOTAL HIGHWAYS	152,721,918	22.44
REGULATORY SERVICES	6,889,016	1.01
NATURAL RESOURCES	<u>13,050,493</u>	<u>1.92</u>
TOTAL EXPENDITURES	<u>\$677,161,771</u>	<u>99.48</u>
TOTAL PAYMENTS ON BONDED DEBT	<u>\$ 3,493,667</u>	<u>.52</u>
TOTAL EXPENDITURES AND PAYMENTS ON BONDED DEBT	<u>\$680,655,439</u>	<u>100.00</u>

Source: Division of the Budget, Executive Department, State of Oklahoma, Schedule I, 1965.

Public Welfare

The largest single category listed in Table XV is the \$205.7 million expenditures under Public Welfare which accounted for one-third of the total. The concept of welfare as used here is broader than public assistance grants -- partly due to technical classification and partly by legislative assignment of functions. In the usual sense the term welfare is connected with public assistance grants for which the Oklahoma Department of Public Welfare did disburse \$122.6 million during the fiscal year 1964-65.¹ The total disbursed by the Department was \$175.9 million. Thus, some of the welfare expenditures such as the Employment Security Commission and Retirement System of State Employees do not fall under the public assistance category. A summary of assistance expenditures is presented in Table XVII.

Part of the growth in the Welfare Department expenditures has been due to non assistance functions (as narrowly defined) transferred to it by legislative action. A detailed list of the expenditures under Public Welfare is shown in Table VIII of the Appendix. Federal funds provided \$100.3 million or 57 percent of the \$175.9 million disbursed by the Department, while state sales tax revenue financed the remainder. Nearly \$12 million of this total was expended on state programs not federally aided, thus federally aided programs received 61 percent of total funds from federal sources.²

¹Oklahoma Department of Public Welfare, Annual Report (Oklahoma City, 1965), p. 1.

²Ibid., Appendix A, Chart 5.

TABLE XVII
SUMMARY OF PUBLIC WELFARE EXPENDITURES
OKLAHOMA 1964-65

Disbursements of Funds	
Combined Adult Categories	\$ 94,136,850
Aid to Families with Dependent Children	28,435,959
Medical Pooled Fund	24,339,016
Schools for the Mentally Retarded	6,382,156
Crippled Children	2,758,142
Training Schools and State Homes	2,386,495
Department of Mental Health	2,000,000
Medical Assistance for the Aged	1,986,277
Child Welfare	1,860,471
General Assistance	817,599
Disability Insurance	400,755
Rehabilitation	400,000
Cuban Refugee	13,293
Work Experience Program	5,228
General Administration	<u>9,994,581</u>
TOTAL	\$175,916,822

Source: Annual Report, Oklahoma Department of Public Welfare,
Fiscal Year Ending June 30, 1965.

Public Welfare programs in Oklahoma are administered by authority of the Oklahoma Social Security Act, which provided that the Department be under the control of the Oklahoma Public Welfare Commission which appoints a director to serve as its executive and administrative agent. Few state public welfare departments have the scope of the Oklahoma Department which has been awarded other functions as funds accumulated. Transfer of the two state children's homes and the four training schools to the department were made in 1961. The three schools for the mentally retarded were transferred in 1963. These institutions are financed solely by state money.³

Other state functions transferred to the department were the crippled children's program, emergency relief, now called general assistance, donated food commodities, and allocations to the Vocational Rehabilitation Division and the Department of Mental Health. These transfers have resulted in "savings" of over \$53 million from the general fund to June 30, 1966.⁴

Education Expenditures

The expenditures shown for higher education include administration expenses for the Board of Regents for Higher Education and the Board of Regents for Oklahoma Colleges. About \$276 thousand went to these boards in fiscal 1966. The bulk of the expenditures were divided among the two state universities, fifteen colleges, Oklahoma Military Academy, and Special Programs. Included are the University of Oklahoma Medical Center

³Oklahoma Department of Public Welfare, Annual Report (Oklahoma City, 1966), p. 17

⁴Ibid.

and Geological Survey. Also included are the College of Veterinary Medicine, the Oklahoma Agricultural Experiment Station, Agricultural Extension Division, Okmulgee Technical Training School and Oklahoma City Technical Institute of Oklahoma State University. There are fifteen other colleges, both junior and four year, in the higher education system that are financed with these expenditures.

Higher education funds are apportioned by the Regents for Higher Education since the legislature makes one lump sum appropriation for this function. This Board was created by a constitutional amendment, Article XIII-A, adopted on March 11, 1941, which also created the Oklahoma System of Higher Education.⁵ The State Regents' principal duties are: (1) to prescribe standards of higher education applicable to each institution, (2) to determine the functions and courses of study at each institution, (3) to grant degrees and other forms of academic recognition for completion of courses of study at institutions, (4) to recommend to the Governor and the State Legislature budget allocations for each institution, (5) to determine fees to be charged students at institutions, (6) to allocate the various institutions in the State System funds appropriated in lump sum by the Legislature, and (7) to function generally as a coordinating agency for the unified State System.⁶

State Aid apportionments to local school districts are made by the State Board of Education through its Director of Finance. Since the Director is bonded by law it is his responsibility to see that no funds are apportioned to ineligible districts nor expended improperly by

⁵State of Oklahoma, Budget for Fiscal Year Ending June 30, 1968 (Oklahoma City, 1967), p. 23.

⁶Ibid., pp. 23-24.

others. This necessitates auditing and verifying teacher qualifications, daily attendance, bus transportation, and other matters.⁷

As was shown in the previous chapter, state funds are divided into dedicated and appropriated funds with different categories under each. State aid is one of four categories under the appropriated funds. Of the total state funds 95 percent are paid to local subdivisions, and the remainder is spent directly by the state in administrative functions connected with the various common school programs.

Generally speaking, most budget requests exceed the fiscal appropriations to specific government functions and agencies. The budget for higher education is made up from individual budget requests from each of the institutions through the appropriate boards to the Regents for Higher Education. This board makes certain adjustments before the total is submitted to the Budget Division. All budgets to be appropriated from the General Fund are adjusted within limits of estimated revenue. The following shows the requested and recommended amounts for fiscal 1968:

Requested	Recommended
\$69,959,267	\$46,836,750

The Public School Education funds are submitted in a similar manner through appropriate boards. General Fund appropriations requested and recommended for fiscal 1968 were as follows:

Requested	Recommended
\$74,295,704	\$72,939,616

⁷Ibid., p. 37.

Public School appropriations from the State General Fund for fiscal 1967 were:

Requested	Recommended	Actual
\$57,748,160	\$66,726,111	\$67,963,643

For fiscal 1967 the appropriations for Higher Education were:

Requested	Recommended	Actual
\$53,919,050	\$38,565,250	\$41,896,250

As a result of these appropriations the Board of Regents for Higher Education raised student tuition fees at the colleges and universities to be effective in the fall of 1967. Thus, the benefit principle of taxation is at work in this instance although some would argue that the public benefits more from education than the individual. However, until some other solution is offered the trend seems to be toward increased costs borne by the individual receiving the higher education.

Public School Expenditures Compared

Despite the growth in state appropriations for common school aid, Oklahoma has not reached the average expenditure for the nation. Table XVIII shows a five-year comparison of growth in expenditures per pupil in average daily attendance for selected states and the average for all states. Oklahoma exceeds Arkansas and Texas in amount expended for 1966-67, but falls below the other four states in the seven-state area. Six of the seven states are below the national average expended per pupil, while Colorado spends slightly more than the average. Of the contiguous states, New York had the highest expenditure per pupil in 1966-67 -- \$912, while Mississippi had the lowest at \$315. New York also showed the largest increase at \$311 per pupil for the five years while

Ohio with \$70 made the smallest. Although below the average increase, Oklahoma increased expenditures per pupil more than did four of the states for the period shown.

TABLE XVIII

CURRENT EXPENDITURES PER PUPIL IN AVERAGE DAILY ATTENDANCE
ELEMENTARY AND SECONDARY SCHOOLS - SELECTED STATES
AND U. S. AVERAGE, 1962-67

State	1961-62	1966-67	Amount Increase	Percentage Increase 1962-67
Oklahoma	\$333	\$461	\$128	38.4
Texas	372	449	77	20.7
Kansas	406	533	127	31.3
Missouri	383	496	113	29.5
New Mexico	383	556	173	45.2
Colorado	417	571	154	36.9
Arkansas	266	390	124	46.6
50 States and D. C. Average	415	564	149	35.9

Source: Oklahoma State Department of Education, Statistical Pamphlet (Oklahoma City, 1967), p. 14. (Percentages by the author)

When the percentage increase in expenditures over the period is computed, Texas showed the smallest absolute gain per pupil as well as percentage increase. Although Oklahoma made less than the average total increase, the percentage gain was greater than the average and was only

exceeded by percentage gains in Arkansas and New Mexico. Thus, New Mexico appears to have made the best improvement in performance in meeting common school needs in the seven-state area.

Measuring expenditures per pupil fails to reflect some important factors in comparing differences among states or other subdivisions. Population density, income per capita and the proportion that school expenditures are of the total expended by the governmental unit are a vital part of such analysis. The extent of each of these factors is not always apparent from a given set of data such as presented above. More than one statistical comparison may be necessary to arrive at any conclusion about the effort put forth by a state or local government in providing educational funds.

A starting point might well be a comparison of educational expenditures relative to total expenditures made in each state as shown in Table XIX. These expenditures are shown as percentages for state and local governments combined and each separately. For instance, 39.9 percent of total direct general expenditures by Oklahoma state and local governments went for education in 1965-66. This was near the average for the United States total. Expenditures for local schools by state and local governments in Oklahoma amounted to 27.2 percent of total expenditures for all functions. Higher education expenditures amounted to 11.6 percent of the same total. The state government spent 25.1 percent of total direct expenditures for all education with .4 percent for local schools, 22.5 percent for higher education, and 2.2 for other educational purposes such as the state library. Local governments in Oklahoma devoted 55.8 percent of total direct expenditures to local schools. This amount

TABLE XIX

EXPENDITURES FOR EDUCATION AS PERCENT OF TOTAL DIRECT
GENERAL EXPENDITURES BY LEVEL OF GOVERNMENT AND
TOTAL UNITED STATES AND SELECTED STATES
1965-66

State and Level of Government	All Education	Local Schools	Higher Education	Other Education
(Percentage of Total Expenditures)				
U. S. Total	40.2	30.3	8.7	1.2
State Government	26.0	.8	21.8	3.4
Local Government	47.9	46.3	1.6	
Arkansas Total	38.0	26.7	9.3	2.0
State Government	23.1	.3	18.9	3.9
Local Government	52.5	52.5		
Colorado Total	45.6	31.2	13.4	1.0
State Government	38.0		35.0	3.0
Local Government	49.9	48.5	1.4	
Kansas Total	42.6	30.0	11.9	.7
State Government	31.8		30.0	1.8
Local Government	48.9	47.5	1.4	
Missouri Total	40.6	31.4	8.6	.6
State Government	20.1		18.7	1.4
Local Government	54.6	52.8	1.8	
New Mexico Total	46.6	30.8	14.6	1.2
State Government	30.5	.7	27.6	2.2
Local Government	64.4	64.4		
Oklahoma Total	39.9	27.2	11.6	1.1
State Government	25.1	.4	22.5	2.2
Local Government	55.8	55.6	.2	
Texas Total	43.9	33.9	9.5	.5
State Government	25.7	1.2	23.2	1.3
Local Government	54.0	52.2	1.8	

Source: Governmental Finance - G. F. 13, U. S. Department of
Commerce, Washington D. C.

includes state and federal grants which explains the low percentage for state government for this purpose.

By comparing these percentages for the functions shown for the different levels of government in each state, the relative performance of each state can be compared to the national average and to the other states. For the total of state and local governments, New Mexico and Colorado spent the highest percentage for all education and were above average. Texas, Kansas, Missouri, Oklahoma and Arkansas complete the rankings in that order for the seven-state area. When the levels of government are taken separately, the rankings are changed. New Mexico and Oklahoma rank highest in percentage of total expenditures made by local governments devoted to local schools. The other states are above average in this respect. Missouri has about the average percentage of state expenditures made on higher education with the other six states spending a higher proportion.

These comparisons appear to imply a lack of effort by state governments in meeting local school needs, but most states channel their revenue through the local districts. Measured in terms of percentage of total expenditures devoted to education Oklahoma shows an average performance.

Another method of measuring the performance of states relative to expenditures on specific functions is the relationship of the expenditures to personal income. Some of these are presented in Table XX along with revenue measured in the same manner for state government only. Since expenditures by a particular state do not reflect the source of funds, it is necessary to look at both revenue and expenditures in relation to income. Thus, Arkansas's state education expenditures, which were

slightly below the national average as a percentage of state and local expenditures, amounts to more dollars per \$1,000 of personal income than either the average or median for all states. To complete the analysis, taxes per \$1,000 of personal income equaled nearly 50 percent more for Arkansas than that for the average state. Of course, it should be noted that the revenue part of the table does not show the portion going to education.

TABLE XX
RELATION OF SELECTED ITEMS OF STATE GOVERNMENT
FINANCES TO PERSONAL INCOME: 1966

	Gen. Revenue per \$1,000 Personal Income			Gen. Expenditures per \$1,000 Personal Income		
	Total	Taxes	From Fed. Gov.	Total	All Education	Higher Education
	(dollars)					
50 State Ave.	88.36	55.52	22.19	86.95	33.54	12.00
Median State	105.92	58.63	27.93	105.50	40.49	15.98
Arkansas	128.95	73.95	45.75	123.24	46.70	16.51
Colorado	110.15	61.68	33.72	106.00	42.25	24.02
Kansas	93.64	58.49	22.75	88.03	36.66	16.84
Missouri	81.17	48.47	26.48	74.01	27.66	10.25
New Mexico	189.52	90.79	62.72	178.86	88.12	34.20
Oklahoma	129.10	69.37	40.19	128.32	47.70	21.43
Texas	87.01	51.17	23.24	79.44	39.27	12.35

Source: Governmental Finances - G. F. 13, U. S. Department of Commerce, Washington D. C.

Despite the lack of precise measurements this affords a better comparison than that presented earlier. When measured in terms of income paid in taxes, the states showing the lowest proportion of total expenditures going for education, rank higher in expenditures and tax revenue raised per \$1,000 personal income. It should be pointed out that this doesn't allow for non-tax revenue which is a higher proportion of all revenue in some states than others. However, these data indicate that New Mexico, Arkansas, and Oklahoma are putting more effort into education than the other four states when measured by income. As was pointed out in the previous chapter, Oklahoma raises a higher proportion of general revenue from non-tax sources than the national average. Therefore, the effort isn't lacking in this respect.

Unfortunately the data used in Table XX did not reflect expenditures on common schools except by implication. Some states have expenditures classed as education other than local schools and institutions of higher education. Since these data do not reflect local government participation, the actual expenditures from which the percentages in Table XIX were computed are used to compute the proportion of total personal income devoted to education functions by state and local governments. Personal income for the calendar year 1965 was used in this computation. The results are shown in Table XXI.

When both state and local expenditures are used it can be seen that the influence of local expenditures changes the ranking among the seven states. Oklahoma dropped to third place where state expenditures alone placed her second. This reflects a lower participation of local governments in educational expenditures. New Mexico education expenditures represent a higher percentage of income in both instances while Colorado

seems to excell in local effort to finance education. Therefore, it is concluded that Oklahoma ranks second among the seven states and is about the national average in state government effort put into education. The state ranks third among the seven states in the combined effort of state and local government when education expenditures are measured in terms of income.

TABLE XXI

PERCENT OF PERSONAL INCOME EXPENDED ON EDUCATION
BY STATE AND LOCAL GOVERNMENT U. S.
AVERAGE AND SELECTED STATES
1965-66

	Local Schools	Higher Education	Total Education
U. S. Average	4.8	1.4	6.4
Arkansas	4.7	1.7	6.7
Colorado	6.0	2.6	8.8
Kansas	4.6	1.8	6.5
Missouri	4.2	1.2	5.5
New Mexico	7.2	3.4	10.9
Oklahoma	5.0	2.1	7.4
Texas	5.0	1.4	6.5

Source: Computed from data in Governmental Finance - G. F. 13,
U. S. Department of Commerce, Washington D. C. and Appendix Table IX.

Higher Education Expenditures

The growth in expenditures for higher education in the United States is shown in Table XXII. These data show the expenditures by all institutions of higher education and separate expenditures each year by public or non-public sources. Therefore, private funds going to state schools are shown as non public. Although there is some variation in the percentage from each source during the period, there is generally an increasing percentage coming from public funds.

While the last section showed data on expenditures for state institutions of higher education, there was no real measure of state effort shown due to the inclusion of non-tax revenues in the data. To properly measure the relative effort of states in supporting higher education, the percentage of income represented by direct appropriations is used. This contrasts with the data in Table XXIII which show the growth in state tax support for higher education. The validity of this comparison depends upon the relationships existing during the base period -- in this case appropriations in 1959-60. While the data in Table XXIII indicate a very high percentage of increase in state taxes appropriated for higher education, there is no basis for comparing the 1959-60 appropriations among the states.

In order to relate the growth in appropriations to personal income and its growth the data from Table XXIII are combined with income information and recomputed. By computing the percentage that the appropriated funds are of total personal income for each state, a comparison can be made of the performance of each in the effort put forth in meeting higher education needs. These results are presented in Table XXIV. Missouri showed the greatest percentage gain in appropriations over the eight

TABLE XXII
EXPENDITURES FROM CURRENT FUNDS BY INSTITUTIONS
OF HIGHER EDUCATION, UNITED STATES
1955-56 TO 1967-68

Fiscal Years	Total	Public		Non-Public	
	Amount	Amount	Percent of Total	Amount	Percent of Total
(Amount in billions of current dollars)					
1955-56	3.3	1.8	54.5	1.5	45.5
1956-57	3.9	2.2	56.4	1.7	43.6
1957-58	4.2	2.4	57.1	1.8	42.9
1958-59	4.9	2.8	57.1	2.1	42.9
1959-60	5.4	3.0	55.6	2.4	44.4
1960-61	6.0	3.3	55.0	2.7	45.0
1961-62	6.8	3.7	54.4	3.1	45.6
1962-63	7.9	4.3	54.4	3.6	45.6
1963-64	8.9	5.0	56.2	3.9	43.8
1964-65	9.8	5.5	56.1	4.3	43.9
1965-66	11.4	6.5	57.0	4.9	43.0
1966-67	13.2	7.6	57.6	5.6	42.4
1967-68	14.6	8.4	57.5	6.2	42.5

Source: Projections of Educational Statistics, U. S. Department of Health, Education, and Welfare, Washington, 1966, pp. 86-87. (Percentages computed by author)

years, but the 1959-60 appropriations were only .27 percent of 1960 total personal income -- the lowest percentage of the seven states shown. With a 151 percent increase in appropriations for the six years prior to 1965-66, Missouri appropriated only .48 percent of personal income for higher education during that year. Personal income increased by only 43 percent during the same time. However, appropriations increased sharply to 1968.

TABLE XXIII

APPROPRIATIONS OF STATE TAX FUNDS FOR OPERATING EXPENSES
OF HIGHER EDUCATION UNITED STATES AVERAGE
AND SELECTED STATES, 1959 - 1967

	1959-60	1963-64	1965-66	1967-68	Percentage Gain	
					60-66	66-68
(Thousands of dollars)						
United States	1,399,904	2,182,473	3,053,698	4,392,980	118	44
Arkansas	13,551	20,369	28,722	38,985	112	36
Colorado	17,271	35,279	44,073	61,856	155	50
Kansas	25,036	38,390	48,598	59,003	94	22
Missouri	24,744	44,526	62,168	92,934	151	50
New Mexico	11,165	15,960	21,649	28,954	94	34
Oklahoma	27,014	33,505	41,867	46,858	55	12
Texas	71,021	114,924	165,301	234,109	133	42

Source: Chambers Report, September, 1967.

TABLE XXIV

STATE APPROPRIATIONS FOR INSTITUTIONS OF HIGHER EDUCATION
AS A PERCENTAGE OF PERSONAL INCOME, UNITED STATES
AND SELECTED STATES, 1959-1966

State	1959-60	1963-64	1965-66
United States	.35	.44	.53
Arkansas	.55	.60	.73
Colorado	.43	.71	.78
Kansas	.53	.69	.77
Missouri	.27	.41	.48
New Mexico	.62	.76	.92
Oklahoma	.62	.64	.69
Texas	.38	.50	.61

Source: Computed from Table XXII and Appendix Table IX.

Oklahoma was appropriating .62 percent of total personal income for higher education in 1959-60. This was highest of the seven states and above the national average. However, the state did not increase appropriations as rapidly as the other states and in 1965-66 appropriated .69 percent of the 1966 total personal income for higher education. This was only fifth among the seven states -- ranking above only Missouri and Texas. Personal income increased by 46 percent during the period while appropriations gained 55 percent. Thus, Oklahoma has made modest gains in appropriations for higher education but has fallen behind the other states relative to percentage of personal income going to higher education. Per capita personal income in Oklahoma in 1966 was 84 percent of

the national average while Colorado was 98, Missouri 97, Kansas 96, Texas 85, New Mexico 79 and Arkansas 69 percent.

Trends in State and Local Spending

Total general expenditures by all state and local governments in the United States increased by 123 percent in the decade 1955-65. The Tax Foundation projects an increase of 89 percent for the 1965-1975 period. Education showed the largest percentage gain (144 percent) but is projected to increase by 83 percent from 1965 to 1975. Public welfare expenditures increased 99 percent and are projected to grow by 170 percent.⁸ The total amount involved in the latter will be about one-third that spent for education in 1975. Table XXV shows the growth in total state and local expenditures and those for selected functions 1955-75.

There are a number of ways of showing growth in expenditures, but the trends when unrelated to other factors become misleading. If only the dollar amounts are shown the increase appears staggering. The use of per capita figures reduces the rate somewhat. When constant dollar values, which reflect price changes, are used the growth rate becomes less. Still a more appropriate comparison is to relate government expenditures to changes in the production of the economy.

Gates and Hudson found that government expenditures equaled about 20 percent of the gross national product from 1932 to 1940. After climbing to 50 percent in 1944 they dropped back to 21 percent in 1948. These expenditures were 24 percent of national income prior to World War II, rose to 57 percent during the war and dropped down to 24 percent in

⁸Tax Foundation, Fiscal Outlook for State and Local Government to 1975 (New York, 1966).

the post war years.⁹ Since 1950, however, defense expenditures and other costs have sent both percentages up.

TABLE XXV
STATE AND LOCAL GENERAL EXPENDITURES
ACTUAL AND PROJECTED, FISCAL YEARS
1955-1975

Function	Amount (billions)			Percent Change	
	Actual 1955	1965	Projected 1975	1955- 1965	1965- 1975
Total, general expenditures	\$33.7	\$75.0	\$142.0	+123	+ 89
Education	11.9	29.0	52.9	+144	+ 83
Highways	6.5	12.2	16.6	+ 89	+ 36
Public welfare	3.2	6.3	17.1	+ 99	+170
Health and hospitals	2.5	5.4	10.6	+128	+ 97
All other	9.7	22.1	44.8	+128	+103

Source: Actual data from U. S. Department of Commerce, Bureau of The Census. Computations and projections by Tax Foundation.

When viewed in this manner the growth over time is not as alarming as the high percentages during war periods. It should be noted that the increases due to national defense emphasize the point that increased expenditures mean increased public services or vice versa.

⁹Thomas Virgil Gates, and Phillip G. Hudson, "The Patterns of Public Expenditures," Public Finance, ed. Richard W. Lindholm (New York, 1959), p. 83.

In the fifteen years, 1948-1963, state and local government expenditures (less federal grants) rose by \$40.4 billion (\$15.9 to 56.3 billion). In applying population and price changes Maxwell reduces this increase from one of 254 percent to 46 percent.¹⁰ This procedure reduces the percentage growth as shown in Table XXV.

State and Local Expenditures for Oklahoma

To present combined expenditures for state and local governments in Oklahoma it is necessary to return to the 1962 data as explained earlier. Table XXVI shows state and local expenditures by function for fiscal 1962. The percentage that each function represents for each level of government is also shown. Not shown is the percentage of the expenditures made by each level of government but this is reflected by examination of the individual items.

Of course, it should be pointed out that much of the local government expenditure comes from state government. In the discussion preceeding this section, these expenditures were counted in those for the state, but here it is the final unit making the expenditure.

The educational expenditure percentages are of particular interest when state and local amounts are combined. Higher education, a state function, reflects about the same percentage of state expenditures as discussed in the preceeding section for later years. The common school educational expenditures are practically all reflected at the local level although it was shown earlier that less than half of these come from

¹⁰James A. Maxwell, Financing State and Local Governments (Washington, D. C., 1965), p. 229.

TABLE XXVI
STATE AND LOCAL GOVERNMENT EXPENDITURES
OKLAHOMA FISCAL YEAR - 1962

	<u>State and Local</u>		<u>State</u>		<u>Local</u>	
	Amount	Per- Cent	Amount	Per- Cent	Amount	Per- Cent
(Amounts in thousands of dollars)						
Total Direct General Expenditures	731,729	100	377,736	100	353,993	100
Higher Education	63,994	8.7	63,869	16.9	125	--
Local Schools	194,734	26.6	1,533	.4	193,201	54.6
Other Education and Libraries	7,649	1.1	5,898	1.6	1,751	.5
Health and Welfare	190,801	26.1	173,769	46.0	17,032	4.8
Highways	135,206	18.5	83,393	22.1	51,813	14.6
Safety and Police Protection	24,656	3.4	3,017	.8	21,639	6.1
Sanitation	10,991	1.5	--	--	10,991	3.1
Development and Natural Resources	33,793	4.6	14,730	3.9	19,063	5.4
General Control and Administration	24,152	3.3	8,317	2.2	15,835	4.5
General Public Buildings	8,890	1.2	6,329	1.7	2,561	.7
Interest on General Debt	18,470	2.5	7,845	2.1	10,625	3.0
Other	18,393	2.5	9,036	2.4	9,357	2.6

Source: Table 16, Census of Government, 1962, Vol. VII, No. 36, p. 23.

local revenues. These expenditures account for more than one-fourth of state and local expenditures combined and over 50 percent of total local expenditures.

Highway expenditures are similar except that the state makes a larger proportion of these direct. Health and welfare are primarily state responsibilities while police protection is a local function. Sanitation is a local responsibility usually carried out by municipalities. Development and natural resources expenditures include a variety of expenditures such as parking facilities, parks and playgrounds, and airport facilities. This explains why there is more spent at the local level than by the state for these latter functions.

Oklahoma state and local expenditures per capita rank below the neighboring states of Kansas and Colorado but ahead of Arkansas and Missouri for fiscal 1962. Table XXVII shows a comparison of selected per capita expenditures for Oklahoma and four other states.

A further comparison of Oklahoma with the nation can be made by examining Table VII in the Appendix. The state ranks no higher than 29th (for highways) for general expenditure functions, dropping as low as 40 for health and hospital expenditures.

Summary of Expenditures

This chapter has presented state government expenditures as allocated through the budgeting procedure to various functions. A brief discussion of the functions accounting for the larger shares of the state total expenditures gives a better understanding of these functions in terms of benefits received by citizens of the state. Public welfare expenditures, which account for about one-third of the total are described in more

detail to distinguish between public assistance expenditures and the broader concept of welfare as employed in Oklahoma. Education expenditures, the second largest group in the state budget, are discussed as the division between local schools and higher education. These expenditures are compared with the same functions in surrounding states. The growth of state efforts relative to personal income, total expenditures, and absolute amounts per pupil are examined and analyzed. Trends in state and local expenditures for the nation and state are presented.

In summary the data presented in this chapter show that expenditures for education in Oklahoma as a percentage of income are average or above. State expenditures for local schools have grown at a faster rate than those for higher education during recent years. Likewise state contribution to local schools have grown faster than local revenues for this function. Expenditures in these respects must be correlated with revenue raising efforts which show that Oklahoma state government effort exceeds four neighboring states while local effort is lagging behind.

TABLE XXVII
 SELECTED PER CAPITA STATE AND LOCAL EXPENDITURES
 SELECTED STATES - 1962

	Oklahoma	Kansas	Colorado	Missouri	Arkansas
Total Expenditure	335.32	362.32	414.34	298.16	243.34
Education	107.96	132.25	153.06	97.88	80.16
Higher Education	26.14	32.01	41.78	12.51	16.60
Local Schools	79.55	98.28	108.11	84.13	60.45
Highways	55.23	71.71	50.58	51.38	51.24
Public Welfare	58.11	26.05	48.92	33.99	27.19
Hospitals	13.80	19.54	21.34	17.39	13.50
Health	2.12	3.01	3.08	2.84	2.19

Source: Census of Governments, Table 16, Vol. VII, 1962.

CHAPTER V

ANALYSES OF TAX BURDENS BY
COUNTIES IN OKLAHOMA

Chapter III presented the sources of revenue for state and local governments along with trends of collections from these sources. Chapter IV showed how the revenues were divided among the various governmental functions and these expenditures were compared with certain other states. It was shown that these state and local expenditures are financed by a combination of taxes and non-tax revenue. In this chapter the tax revenues will be analyzed as they relate to income and wealth in each county of the state.

First, local tax revenue will be subjected to statistical tests to determine the degree of progression and relationship of incidence among the seventy-seven counties. Data collected by the Census of Governments is used in this analysis. Secondly, the per capita state tax collections for each county are estimated and tested for degrees of progression. Next, the per capita collection of federal taxes is estimated and analyzed in the same manner, and finally the total tax per capita is estimated and subjected to the same tests. In each instance an explanation of possible reasons for extreme deviations will be given.

In 1962 there were an estimated 2.4 million people in Oklahoma with a personal income of \$4,664 million or \$1,915 per capita. There were about 613,000 family units and 180,000 unrelated individuals making up

the households in the state. How these households share in the income of the state and the proportion of that income paid in taxes is of special concern in this study.

In an Iowa study the households of the state were divided into income groups. Each income grouping was classified according to seven occupations, with farmers divided into owners and tenants.¹ Incomes were estimated for each grouping on a per family basis. The income groupings can be determined from census data and certain occupational groupings are available as well as individual earnings by industry. But, there is no cross classification available for Oklahoma such as worked out in Iowa and certainly no tax payment data that will correlate with the above.

The Iowa classification was accomplished by figuring taxes for each family grouping by (1) estimates of asset holdings for the property tax, (2) estimates of consumption spending by income and occupation for such consumption taxes as sales and cigarettes, (3) estimates of travel for road use taxes and (4) estimates of income for the income tax. Of the four estimates made, the second and fourth are more likely to approach the actual amounts than the other estimates.

Considerable effort was expended seeking an appropriate procedure to use in this study of Oklahoma taxes. Of course, the most desirable one would be a representative sampling of income groups by occupation classification. This was not feasible within the scope of this study, and then too, this would be limited by the lack of knowledge individuals possessed of taxes paid other than property taxes. Few people keep records of such payments and the most useful estimates are on income tax

¹Cooperative Extension Service, Financing Our Public Services, Iowa State University Fact Sheet No. 2 - MA-1442 (Ames, 1965).

returns. These returns would not cover all individuals nor families if they were available (and they are not). In certain respects some of the tax estimates might be more accurate than sampling but matching these with income and occupation groups might not be as valid.

After considering the various alternatives, it was decided that use of secondary data from verifiable sources offered the most suitable means of studying tax incidence. A search of such sources revealed that the 1962 Census of Governments offered the most complete information on revenue and expenditures for counties in the state. Reports from the Oklahoma Tax Commission supplied assessed valuations for different kinds of property in each county. These reports also gave state taxes collected from different sources and some of them are listed by counties. The Budget Division of the State also furnished reports of revenues by source and expenditures by use. The Finance Division of the State Board of Education compiles annual reports of sources of revenue and amounts for common schools by counties. By drawing together this information it was possible to use the county unit as a basis for study rather than the family unit.

Income and wealth were selected as the best indicators of tax paying ability and performance. Instead of applying these measures to payment of taxes by individuals and generalizing as to the relationship, it seems logical to analyze the general situation and use this as an indication of individual cases. This is even more appropriate when the aggregate data reflects the facts more accurately. With differences in assessed valuation and personal income by counties the effect of wealth and income on the amount of taxes should be evident. Per capita figures are used in each case.

Methodology

Models were developed for statistically estimating parameters related to the variables of income and wealth (assessed value). Fifteen variables are used as follows:

- X_1 = Total tax per capita - 1961-62 - fiscal
- X_2 = 1962 personal income per capita
- X_3 = 1961 assessed value per capita
- X_4 = Adjusted 1961 assessed value per capita
- X_5 = Total tax as percent of income (1962)
- X_6 = Property tax as percent of total tax
- X_7 = 1961 personal income per capita
- X_8 = Total tax (X_1) as percent of income (1961)
- X_9 = Property tax per capita - 1961-62 - fiscal
- X_{10} = Percent of 1961 assessed value as farm value
- X_{11} = Percent of 1961 personal income from farm
- X_{13} = 1962 assessed value per capita
- X_{14} = Grand total tax per capita
- X_{15} = State tax per capita
- X_{16} = Federal tax per capita

Single equation least squares estimates were used in the experimental models to analyze local taxes. After these trials the variables X_5 , X_6 , X_7 , X_8 , and X_{13} were eliminated and these results are not reported in the following analyses. In order to give a more precise measurement and provide for quickly identifying the degree of progression the remaining variables (except X_{10} and X_{11}) were converted to natural logs and appropriate models used. The logarithmic regression models are used to

complete the local tax analysis and are the only equations used in testing state, federal and total taxes per capita.

The Iowa study of tax incidence showed that property taxes as well as the total tax bill (state and local) are largely regressive.² In addition to determining this relationship for local taxes in Oklahoma it was considered desirable to test the wealth effects. Consequently, income per capita and assessed value per capita were used in each equation to estimate the relationship between per capita income and taxes and between wealth and taxes. The nature of this relationship (linear or curvilinear) is also tested.

Local Tax Analysis

The selection of the variables enumerated above was made on the basis of (1) correlating local taxes with income and wealth and (2) searching for factors that might explain the deviations from the predicted values determined by the models. Discarding certain variables was the result of testing these and finding them statistically insignificant to the analyses. A total of 23 equations were tested but the coefficients obtained will be shown for only 13 of these. A brief explanation of the results of the other 10 equations will be appropriately given in the discussion of the analyses.

Since local taxes are largely derived from property assessments, the nature of payment of these taxes is an important consideration in selection of variables. Some common practices in paying property taxes are (1) pay one-half the total amount in the closing weeks of the year

²Ibid., pp. 3-5.

for which assessed and pay the remainder in the early months of the following year, (2) pay total due in the year assessed from income already in hand and (3) pay all by check at the close of the year due and cover this with deposits made shortly after the first of the next year. The latter practices may entail income earned in the tax year or the tax may be paid from proceeds made after January 1. The relevancy of these practices is that income data are reported for the calendar year while tax collection data are for a fiscal year. A question arises as to which year's income to use so each was tested. Four equations predicting total local tax per capita, are shown in Table XXVIII.

The regression coefficients obtained in equations 1 and 3 are significantly different from zero at the 1 percent level in each instance. These results indicate that the use of personal income for either year is satisfactory. Equation 2 produces different coefficient values when X_4 , the 1961 adjusted assessed value per capita, is used instead of actual assessed values. This adjustment was made by applying an assessment ratio of 20 percent to all real property in each county to simulate uniformity in values. Although the R^2 is acceptable the results did not indicate a significant difference to explain deviations so actual assessed values were used.

Equation 4 introduces two additional variables in order to determine if the agricultural nature of many counties influenced the deviations from the regression fit in equation 1. Since X_{10} and X_{11} are percentages, the parameters associated with them cannot be interpreted in the same manner as the others. Here a 1 percentage point change in personal income from farming causes a 1.5 percent change in the same direction in taxes. Likewise, a 1 percent change in rural assessments causes a

4.7 percent change in the same direction in taxes. This implies a larger proportionate tax load on farm people in counties with a high percentage of rural property. However, the regression coefficients are not different from zero at the 5 percent significance level. Thus, the hypothesis of difference in the rural-urban tax incidence can be statistically rejected.

TABLE XXVIII
REGRESSION EQUATIONS, TOTAL LOCAL TAX PER CAPITA

Variables	Equations			
	1	2	3	4
R^2	.885	.853	.887	.885
X_2 - 1962 personal income per capita	b .01485** t 16.70391	.01639** 6.61473		.01582** 5.77063
X_3 - 1961 assessed value per capita	b .02525** t 17.81619		.02425** 16.54799	.02430** 9.89721
X_4 - 1961 adjusted assessed value per capita	b t	.021084** 15.23531		
X_7 - 1961 personal income per capita	b t		.01559** 6.88189	
X_{10} - percent farm value of total assessed - 1961	b t			.01548 .13728
X_{11} - percent farm income of personal income - 1961	b t			.04693 .25413

In order to test for curvilinearity of the functions the X_2 and X_3 terms were squared and added to the equation. The coefficient obtained for X_2^2 was not significantly different from zero indicating a linear relationship between income and taxes. The value of the coefficient of the X_3 term squared showed a downward curvilinear function as assessed value (wealth) increases. However, conclusions in this regard are deferred until after the following discussion of the functions in logarithm form.

The equations discussed above suggest that for each \$1 increase in assessed value per capita the average county tax per capita rises by 2.5 cents. Similarly, a \$1 rise in income per capita increases the average tax by 1.5 cents. The use of logarithm functions permits a direct interpretation on percentage increases as well as determining progression. If the coefficient value of a single variable function is less than 1.0 then the tax is regressive. A value higher than 1.0 indicates progressiveness in the tax. These equations are shown in Table XXIX for total local taxes per capita and also for property tax per capita.

The first two equations measure total local tax as (1) a function of income alone and (2) as a function of income and wealth (assessed value). Although the R^2 for equation 1 is low, the coefficient value is significantly different from 1.0 at the .05 level and indicates a regressive tax when considered a function of income alone. Equation 3 shows a higher degree of regressiveness for property taxes relative to wealth. When wealth and income are both used as variables to predict each of the local taxes the coefficient values seem to reflect a high degree of correlation between income and wealth. The other regression models discussed above also indicated that both these variables should be used in a predictive model. But the models in either case suggest that total

local and property taxes are regressive to income and wealth. A 1.0 percent increase in income causes taxes to rise only .78 percent while taxes go up .71 percent when assessed value is raised 1 percent.

TABLE XXIX
REGRESSION EQUATIONS, VARIABLES IN LOGARITHMS,
LOCAL TAXES PER CAPITA

Variables	Total Local Tax per capita Equations		Local Property Tax per capita Equations	
	1	2	3	4
R^2	.485	.900	.802	.862
LnX ₂ -1962 personal income per capita	b .78494*	.32306**		.33073**
	t 2.30134	13.80101		11.47779
LnX ₃ -1961 assessed value per capita	b	.63367**		
	t	10.15046		
LnX ₄ -1961 adjusted assessed value per capita	b		.70999**	.58665**
	t		7.11855	10.19112

Property Tax Analysis

Theoretically, property tax as a function of wealth is expected to show a linear relationship under a perfect assessment procedure. In practice, the institutional framework of property assessment does not approach perfection. Inaccurate assessment is generally listed as the most publicized and most serious administrative fault of the general property tax. Maxwell classes this inaccuracy as two types:

(a) underassessment, and (b) deviation of individual property values from the general assessment ratio of the taxing jurisdiction.³

There are differences in assessment ratios between county units as well as inequalities of assessment within counties of Oklahoma. The property assessment procedure in Oklahoma starts with the county tax assessor in each county. This officer is responsible for all property assessments except that owned by public utilities and railroads which are made by the State Board of Equalization assisted by the Tax Commission.

County procedures may vary in some respects over the state but generally property values are rendered each year by the owner at the assessor's office or some other central point in the county. Personal property, both tangible and intangible, is declared by the owner. He also files for homestead exemption on the real property where he resides and may be questioned as to improvements thereon. Real property values that have been established are likely to be carried over from year to year unless adjusted individually or raised by blanket percentages.

Once the assessor has tabulated all property values on the rolls, the county valuations are reviewed by the County Equalization Board. This board may adjust or equalize local assessments by classes of property and then transmits an abstract to the State Tax Commission. The Commission recommends equalized valuations of county assessments to the State Board of Equalization. This Board attempts to equalize county valuations and returns them along with the public service assessments to the county assessor who adjusts the tax rolls accordingly.

³James A. Maxwell, Financing State and Local Governments (Washington, D. C., 1965), p. 137.

This system is designed to provide more equitable assessments within the counties as well as among the counties. Evidence such as assessment ratio studies and other studies, indicate that this has not been achieved in Oklahoma. Parcher and Dyke found that rural property was underassessed relative to urban properties and unimproved urban lots were assessed relatively lower than improved properties.⁴ This is contrary to generalized statements made by Henson, Paulsen, and Ratliff in reporting rural properties assessed at a higher percentage of true value than urban property.⁵ The latter authors also reported a tendency of assessors to assess low-valued property closer to its true value and more valuable property at a smaller percentage of true value.

Since the measure of wealth is per capita property assessments and the property tax accounts for 95 percent of all local taxes, the same functional relationships should hold in equations testing property taxes as shown for total local tax. Four equations are shown in Table XXX that were used to test the validity of this assumption. Two equations in logarithm form were presented in Table XXIX for local property taxes. These gave coefficients similar to the two for total local taxes.

Equation 1 in Table XXX gives values close to those for equation 1 in Table XXIX. Equation 4 in Table XXX compared with equation 3 of Table XXIX with similar values for the coefficients. However, equation 3 in Table XXX shows some variation from the same sort of function as shown by the last equation of Table XXIX. The difference in the X_{10} and

⁴L. A. Parcher and Paul T. Dyke, An Analysis of Real Property Assessments in Payne County, Oklahoma, Oklahoma State University Processed Series P-525 (Stillwater, 1966), pp. 9-11.

⁵William G. Heuson, Ray G. Paulsen and Charles E. Ratliff, "Property Taxes," Public Finance, ed. Richard W. Lindholm (New York, 1959), p. 414.

TABLE XXX
REGRESSION EQUATIONS, VARIABLES IN LOGARITHMS,
LOCAL PROPERTY TAX PER CAPITA

Variables		Equations			
		1	2	3	4
R^2		.886	.925	.887	.887
X_2 -1962 personal income per capita	b	.01380**	.01149**	.01465**	
	t	6.56586	6.42765	5.55097	
X_3 -1961 assessed value per capita	b	.02469**	.04713**	.02428**	.02380**
	t	18.08740	12.30655	10.23128	16.77298
X_3^2	b		-.00001**		
	t		6.12488		
X_7 -1961 personal income per capita	b				.01466**
	t				6.55291
X_{10} -percent farm value of total assessed 1961	b			.05221	
	t			.48076	
X_{11} -percent farm income of 1961 personal income	b			-.01631	
	t			-.09173	

X_{11} variables appears to indicate some influence by farm income and wealth but the coefficient values are not significantly different from zero at the .7 level.

The remaining equations presented in each table are different functions. Equation 2 in Table XXIX, as previously explained, shows taxes as a function of personal income and the adjusted assessed value. Equation 2 in Table XXX was a test to determine if taxes were a decreasing function of assessed value. While the coefficient value is significant, the final determination was made on the basis of the logarithm functions. The hypothesis of rural-urban differences in property taxing effects is rejected. The functions used to predict total local taxes are equally effective in predicting property taxes.

Deviations

When the various equations are used to predict the per capita tax in each county the deviations become an important consideration. The selected counties in Table XXXI show a comparison of actual data with predictions using total local tax as a function of income and wealth, or $X_1 = f(X_2, X_3)$.

The counties were selected because of minor deviations. The point of consideration here is the wide variety of conditions in these counties. Adair county has the lowest per capita income and next to lowest assessment per capita in the state. Oklahoma county is a metropolitan complex with the third highest per capita income in the state but has a medium assessment level. Pawnee county has less than half the per capita income of Oklahoma county but has a higher assessed value per capita. Pittsburg county has a higher per capita income than Pawnee but has less than

three-fourths as much valuation per capita. Seminole county is similar in these respects to Pittsburg county. Wagoner county is characterized by a low income per capita and per capita assessed value somewhat higher than Pittsburg.

TABLE XXXI
COUNTIES WITH MINOR DEVIATIONS BETWEEN
ACTUAL AND PREDICTED TAX

	Actual Tax	Predicted	Deviation
Adair	\$29.62	\$29.78	-\$0.16
Oklahoma	72.82	72.74	+ 0.07
Pawnee	51.88	51.90	- 0.02
Pittsburg	46.17	46.31	- 0.14
Seminole	46.05	46.08	- 0.03
Wagoner	39.89	39.84	+ 0.05

The counties listed in Table XXXII show the largest deviations except a few extremes which will be analyzed separately. Alfalfa, Cimarron and Comanche all had per capita incomes around \$2,000, which is among the higher incomes in the state. The first two also had above \$3,000 assessments per capita while Comanche had the lowest in the state at \$556 per capita. Canadian and Dewey counties both had per capita incomes and assessments slightly above average. Murray county had slightly lower income but much lower assessed value per capita. All of these counties,

except Comanche, are predominantly agricultural with Canadian influenced by the Oklahoma City Metropolitan development. These examples indicate a tendency for higher tax rates in predominantly agricultural counties.

TABLE XXXII
COUNTIES WITH LARGE DEVIATIONS BETWEEN
ACTUAL AND PREDICTED TAXES

	Actual Tax	Predicted	Deviation
Alfalfa	\$128.66	\$117.61	+11.05
Canadian	66.41	76.97	-10.56
Cimarron	136.17	124.02	+12.09
Comanche	37.49	50.19	-12.70
Dewey	88.37	75.83	+12.54
Murray	70.23	57.54	+12.69

The unusually large deviation for Beaver county as shown in Table XXXIII, is explained by the higher proportion of corporate valuations in the total per capita assessment of \$5,600, which is the highest in the state. Available figures indicate that income associated with these corporate properties (other than wages, royalties, etc) is not reflected in the county per capita personal income. Also, farm production accounts for nearly 45 percent of personal income. Harper county, which adjoins Beaver, shows some of the same characteristic but has only 35 percent of personal income from farming. Woodward county which is adjacent to

Harper has more urban population and only 21 percent of income from farm sources while 41 percent of the assessed value is farm property. Thus, the complex nature of the economy in these counties seems to account for the extreme deviations with the model over predicting in one and under estimating the other two.

TABLE XXXIII
COUNTIES WITH EXTREME DEVIATIONS BETWEEN
ACTUAL AND PREDICTED TAXES

	Actual Tax	Predicted	Deviation
Beaver	\$112.26	\$150.95	-\$38.69
Harper	106.39	90.12	+ 16.27
Woodward	90.63	75.51	+ 15.12

The use of the function $\text{Ln}X_1 = f(\text{Ln}X_2, \text{Ln}X_3)$ appears to scramble the deviation positions of the counties. But these deviations must be interpreted as a percentage rather than actual dollar values. Where this is applied the results are approximately the same. Beaver county showed the largest deviation at $-.26866$ which means that deviation value is 26.866 percent of the predicted value or, put another way, the actual tax is 73.134 percent of the predicted tax. This computes to approximately the same value as shown in Table XXXIII. Harper county shows a deviation of $.14918$ which means that the predicted tax is 85 percent of the actual amount. Woodward county shows similar results.

Analysis of State Taxes at the County Level

Available data on state taxes paid by counties are incomplete. Gross production, sales, income, and rural electric taxes are all reported by counties as is revenue from auto and farm truck licenses. Total state contributions to local units of government are included in data discussed earlier.

By using available data it was possible to compile a total of "selected state taxes" by counties and use this as a guide to estimate county payments of state taxes. The use of the gross production tax probably distorts the sample since some counties pay little or none. The sales tax may partially off-set bias with a bias of definite regressiveness. A factor was derived by computing the proportion that the total "selected taxes" was of the total of all state taxes as reported by the Tax Commission. This factor was then applied to the county total of "selected taxes" to estimate the total state taxes paid in the county. Then the per capita tax paid was computed from this total.

These estimates of per capita state taxes paid by each county were then subjected to statistical tests with logarithms of the functions. In these tests, income and wealth were used separately as dependent variables and then jointly. The results shown in Table XXXIV reveal that state taxes appear slightly progressive as to income. The coefficient values for income and wealth are not significantly different from 1.0. For practical purposes it may be concluded that total state taxes are about neutral with respect to progressiveness.

It was pointed out in Chapter IV that local units of government make expenditures that are financed by state and federal revenues. Transfer funds become an important part of the local financing of government

functions. The extent of the use of these funds varies according to functions and some of these have been pointed out in previous sections dealing with individual expenditures. But it should be advantageous to make some comparison of local effort with assistance from state government in financing local activities. Examination of the actual data reveals certain relationships but is not a satisfactory means of measurement. A set of index numbers was developed for this purpose which enables ready comparison of likenesses and differences.

TABLE XXXIV
REGRESSION EQUATIONS, VARIABLES IN LOGARITHMS,
STATE TAX PER CAPITA, BY COUNTIES

				Total State Tax per Capita		
				Equation		
				1	2	3
R^2				.313	.395	.464
Ln X_2 - 1962 personal income per capita	b			1.02183		.56954*
	t			.12477		2.33581
Ln X_3 - 1961 assessed value per capita	b				.84530	.62050**
	t				1.28074	2.79929

Each county per capita figure was computed as a percent of the state average. These percentages are listed in Table XXXV for four relevant items. The index number computed from selected taxes is listed in the third column and labeled "local effort." Sales tax is not included since the benefits are direct state expenditures. Table X of the Appendix

TABLE XXXV
COUNTY INDEX NUMBERS FOR SELECTED
TAX ITEMS AND INCOME, OKLAHOMA
1961-62

COUNTY	TOTAL LOCAL REVENUE INDEX	STATE CON- TRIBUTION TO LOCAL REVENUE INDEX	LOCAL EFFORT FOR STATE TAXES INDEX	1961 INCOME PER CAPITA INDEX
Adair	81	153	23	37
Alfalfa	148	155	119	109
Atoka	80	165	24	41
Beaver	208	307	642	103
Beckham	229	119	103	83
Blaine	124	140	60	79
Bryan	85	119	44	59
Caddo	102	136	99	70
Canadian	98	86	58	77
Carter	85	107	232	84
Cherokee	80	136	28	41
Choctaw	87	142	23	56
Cimarron	221	265	150	122
Cleveland	85	86	90	69
Coal	87	154	70	48
Comanche	79	83	36	103
Cotton	100	150	120	58
Craig	77	99	36	70
Creek	88	109	144	63
Custer	100	115	55	84
Delaware	86	164	29	41
Dewey	135	200	75	78
Ellis	145	201	70	84
Garfield	99	74	77	100
Garvin	91	124	332	74
Grady	103	114	126	75
Grant	151	178	164	95
Greer	104	131	47	67
Harmon	126	194	53	82
Harper	152	205	465	83
Haskell	95	148	38	43
Hughes	94	141	80	54
Jackson	103	113	54	100
Jefferson	110	153	94	63
Johnston	104	151	24	53
Kay	90	75	87	106
Kingfisher	137	168	368	95
Kiowa	109	139	59	76
Latimer	99	154	29	44
LeFlore	83	142	33	50
Lincoln	103	142	189	68

TABLE XXXV (Continued)

COUNTY	TOTAL LOCAL REVENUE INDEX	STATE CON- TRIBUTION TO LOCAL REVENUE INDEX	LOCAL EFFORT FOR STATE TAXES INDEX	1961 INCOME PER CAPITA INDEX
Logan	81	95	92	66
Love	116	180	198	56
McClain	99	149	335	55
McCurtain	97	154	23	43
McIntosh	89	168	35	47
Major	117	150	136	74
Marshall	93	135	142	65
Mayes	81	134	36	64
Murray	105	81	44	64
Muskogee	101	114	54	93
Noble	117	126	169	94
Nowata	89	134	117	76
Okfuskee	105	164	127	52
Oklahoma	105	68	87	135
Okmulgee	79	110	62	76
Osage	99	136	362	57
Ottawa	79	103	44	88
Pawnee	99	133	108	58
Payne	62	71	68	79
Pittsburg	85	121	35	72
Pontotoc	80	92	90	81
Pottawatomie	91	111	85	72
Pushmataha	111	188	22	40
Roger Mills	113	189	40	74
Rogers	97	113	58	55
Seminole	101	123	160	69
Sequoyah	93	153	26	34
Stephens	95	123	279	96
Texas	178	197	315	112
Tillman	118	131	65	88
Tulsa	103	54	98	152
Wagoner	78	126	14	40
Washington	111	86	169	166
Washita	96	126	41	60
Woods	122	117	70	96
Woodward	132	126	66	91

shows a comparison of the sales tax payments and benefits received by counties.

Adair county gets practically the same per capita contribution from state government as Alfalfa county which puts about five times the effort into state payment of taxes as Adair county. However, per capita income in Alfalfa county is about three times that in Adair county. Likewise, the citizens of Alfalfa county spend nearly twice as much per capita at the local level.

Beaver county pays nearly six and one-half times as much state tax per capita as the state average (which equals 100). This is due to the high per capita gross production tax collected in the county. The county also spends twice the average in local revenues. Since a portion of the gross production tax is returned to the county where collected, the state contribution per capita is three times the average.

Comanche county which has about the state average per capita income, puts only a third of the average into payment of state taxes, or about the same as Craig county with less per capita income. Garfield county, with about the same per capita income as Comanche, pays over twice as much into state taxes and receives a little less in state contributions. Cotton county with slightly over half the income per capita of Alfalfa county puts about the same effort into payment of state taxes and receives about the same contributions.

Federal Taxes at County Level

Federal taxes paid in Oklahoma are available on a state total basis only. Since the state income tax is closely related to the federal income tax, data on state income tax by counties was used to estimate

federal income taxes per capita. The federal income tax and other federal tax collections for the state, as reported by the Internal Revenue Service, were distributed among counties on the same basis as the state income tax. These estimates resulted in a per capita federal tax of \$392 for Oklahoma. The Tax Foundation estimated \$376 per capita in federal taxes for Oklahoma during the same period which was obtained by applying a special formula to total tax collections reported by the Internal Revenue Service.⁶

Since the procedure used in this study results in only 4 percent more tax per capita than the estimate cited above, the \$392 per capita estimate seems realistic.

The per capita estimates of federal taxes paid in each county were subjected to the same tests as state taxes. The results show a coefficient of 1.78193 for income as an independent variable alone, indicating the strong progressiveness of federal taxes (Table XXXVI). The coefficient for wealth showed a regressive tendency but it is not significantly different from 1.0. When the two variables are used jointly in the function, the coefficient for income remains relatively high. This is expected since the income tax is over half the total and the other taxes are estimated from this base.

To strengthen the case for progressiveness of federal taxes, the data in Table XXXVII show the percentage of income from various income levels collected as federal income taxes. These data are for state totals and of course for the income tax only. Since these data represent averages, there can be no definite determination of the degree of

⁶Tax Foundation, Facts and Figures on Government Finance, (New York, 1963), p. 112.

progressiveness but the implication is evident. It must be remembered that the use of per capita personal income in the analyses presented above cannot be compared to income data such as presented in Table XXXVII. Per capita personal income is estimated after corporate, business and certain other taxes have been paid.

TABLE XXXVI
REGRESSION EQUATIONS, VARIABLES IN LOGARITHMS,
FEDERAL TAX PER CAPITA
BY COUNTIES

Variable		1	Equation 2	3
R^2		.850	.318	.856
LnX ₂ -1962 personal income per capita	b	1.78193**		1.68141**
	t	9.0354		6.75332
LnX ₃ -1961 assessed value per capita	b		.80155	.13791**
	t		1.46242	11.62276

Total Taxes at County Level

The per capita local taxes as reported by the Census of Governments were combined with the per capita state and federal tax estimates to get the total taxes paid per capita in the county. These estimates are shown in Table XXXVIII. The total tax per capita was statistically tested in the same manner as state and federal taxes and the results are shown in Table XXXIX. The combination of regressive, neutral and progressive taxes resulted in a progressive total tax as related to income.

TABLE XXXVII
FEDERAL INCOME TAX RETURNS BY ADJUSTED
GROSS INCOME CLASSES
OKLAHOMA, 1961

Adjusted Gross Income Classes	Percent Of All Returns	Adjusted Income (\$000)	Income Per Return	Income Tax (\$000)	Tax Per Return	Percent Tax of Income
Grand Total	100.0	3,421,427	\$ 4,678	403,733	\$ 552	11.80
Taxable Returns Total	71.9	3,138,223	5,966	403,733	768	12.86
Under \$1,000	2.5	14,957	812	480	26	3.21
\$1,000 > \$2,000	6.8	75,344	1,520	5,414	109	7.19
\$2,000 > \$3,000	8.7	156,898	2,470	11,477	181	7.31
\$3,000 > \$4,000	8.4	215,914	3,528	16,268	266	7.53
\$4,000 > \$5,000	9.7	320,519	4,524	27,741	392	8.66
\$5,000 > \$6,000	9.0	362,975	5,499	34,578	524	9.53
\$6,000 > \$7,000	7.1	338,066	6,515	35,082	676	10.38
\$7,000 > \$8,000	6.3	342,600	7,464	36,808	802	10.74
\$8,000 > \$9,000	3.8	236,595	8,427	28,201	1,004	11.92
\$9,000 > \$10,000	2.3	161,593	9,481	19,575	1,148	12.11
\$10,000 > \$15,000	5.0	434,609	11,818	61,940	1,684	14.25
\$15,000 > \$20,000	1.1	135,602	17,070	23,627	2,974	17.42
\$20,000 > \$25,000	.4	61,109	22,085	12,432	4,493	20.34
\$25,000 > \$50,000	.7	158,782	33,038	40,726	8,474	25.65
\$50,000 or more	.2	122,660	102,989	49,384	41,464	40.26

Source: Individual Income Tax Returns 1961 Internal Revenue Service
Publication No. 471, December 1964, p. 30.

TABLE XXXVIII

SUMMARY OF COUNTY PER CAPITA TAXES BY LEVEL
OF GOVERNMENT, OKLAHOMA, 1961-62

COUNTY	LOCAL TAX PER CAPITA	STATE TAX PER CAPITA	FEDERAL TAX PER CAPITA	TOTAL TAX PER CAPITA
Adair	\$ 29.62	\$ 36.10	\$ 61.08	\$ 126.80
Alfalfa	128.66	125.21	272.90	526.77
Atoka	30.36	40.68	63.97	134.94
Beaver	112.26	503.17	500.83	1,116.26
Beckham	65.79	125.77	242.81	434.37
Blaine	72.14	85.43	221.59	379.16
Bryan	37.70	65.39	130.80	233.89
Caddo	57.54	108.88	161.35	327.77
Canadian	66.41	79.81	258.05	404.27
Carter	57.60	221.03	385.12	663.75
Cherokee	25.54	47.73	89.12	162.39
Choctaw	30.97	43.15	68.48	142.60
Cimarron	136.11	157.74	448.65	742.50
Cleveland	43.62	104.00	287.50	435.12
Coal	39.38	72.48	81.20	193.06
Comanche	37.49	62.23	165.43	265.15
Cotton	50.70	117.69	144.04	311.94
Craig	51.79	57.89	139.96	249.64
Creek	47.90	141.34	215.50	404.74
Custer	70.04	93.50	285.77	449.31
Delaware	33.55	39.75	53.01	126.31
Dewey	88.37	90.48	206.46	385.31
Ellis	92.61	89.38	266.95	448.94
Garfield	80.90	116.90	420.74	618.54
Garvin	60.50	291.35	195.96	547.81
Grady	58.00	136.21	206.15	400.36
Grant	115.46	160.15	314.35	589.96
Greer	55.28	76.08	169.93	301.29
Harmon	51.38	83.72	268.88	403.98
Harper	106.39	387.99	200.88	695.26
Haskell	43.88	53.13	95.12	192.13
Hughes	52.17	86.37	98.32	236.86
Jackson	38.99	87.05	253.85	379.89
Jefferson	68.26	97.50	159.96	325.72
Johnston	43.18	36.26	59.16	138.60
Kay	78.70	106.95	412.30	597.95
Kingfisher	103.96	351.18	399.01	854.15
Kiowa	70.35	91.07	232.85	394.27
Latimer	30.67	43.03	71.16	144.86
LeFlore	38.81	49.26	89.41	177.48
Lincoln	66.30	193.10	144.29	403.69
Logan	60.05	100.97	185.45	346.47
Love	61.38	167.35	109.84	338.57

TABLE XXXVIII (Continued)

COUNTY	LOCAL TAX PER CAPITA	STATE TAX PER CAPITA	FEDERAL TAX PER CAPITA	TOTAL TAX PER CAPITA
McClain	\$ 54.69	\$287.46	\$132.03	\$ 474.18
McCurtain	41.50	38.98	63.90	144.38
McIntosh	34.63	57.13	108.95	200.71
Major	73.24	136.73	174.08	384.05
Marshall	55.09	142.29	166.15	363.53
Mayes	40.51	58.41	139.73	238.65
Murray	70.23	63.18	115.25	248.66
Muskogee	55.03	80.20	301.22	436.45
Noble	84.39	171.01	265.59	520.99
Nowata	51.33	112.92	226.72	390.97
Okfuskee	60.92	104.46	89.17	254.55
Oklahoma	72.82	134.57	620.62	828.01
Okmulgee	40.64	81.00	215.52	337.16
Osage	65.19	292.85	187.10	545.14
Ottawa	52.07	72.46	208.01	332.54
Pawnee	51.88	108.98	147.10	307.96
Payne	39.92	90.54	242.84	373.30
Pittsburg	46.17	60.87	166.84	273.88
Pontotoc	60.16	111.07	236.34	407.57
Pottawatomie	49.34	107.86	248.48	405.68
Pushmataha	40.74	38.64	48.39	127.77
Roger Mills	55.52	51.30	135.21	242.03
Rogers	57.01	70.75	157.21	284.97
Seminole	46.05	165.41	193.05	404.51
Sequoyah	36.93	38.69	68.92	144.54
Stephens	60.18	256.75	447.90	764.83
Texas	116.10	284.49	414.10	814.69
Tillman	72.16	87.08	243.37	402.61
Tulsa	88.96	138.57	828.42	1,055.95
Wagoner	39.89	46.54	91.16	177.59
Washington	85.68	178.15	1,166.54	1,430.37
Washita	51.26	54.61	144.40	250.27
Woods	96.00	100.70	304.43	501.13
Woodward	90.63	105.20	299.85	495.68

Regressiveness to wealth was indicated but the coefficient estimate is only significantly different from 1.0 at the .10 level. The high degree of progressiveness of federal taxes causes similar results in total taxes but at a lower level. When wealth and income are both used as independent variables, the coefficient for income is slightly greater than 1, but is not significantly different from 1.

TABLE XXXIX
REGRESSION EQUATIONS, VARIABLES IN LOGARITHMS,
TOTAL TAXES PER CAPITA

Variables		Equations		
		1	2	3
R^2		.741	.456	.805
$\ln X_2$ -1962	b	1.43094**		1.16398
income per capita	t	4.41356		1.62212
$\ln X_3$ -1961 assessed	b		.82566	.36625**
value per capita	t		1.67328	8.52044

A few characteristics of the estimates of total taxes paid to all levels of government should be emphasized at this point. The local taxes include only those items labeled as taxes and classified accordingly by the census. The estimates of state taxes include items, such as car license fees, that are not specifically named as a tax but are generally regarded as such. The federal estimates include social security taxes and similar items handled by the Internal Revenue Service.

Finally, it is emphasized that the results reported in this study indicate only that total taxes are progressive among counties. They may or may not be progressive among individuals. Some studies made in other states tend to support the results for state and local taxes presented in this study. Comparable data on the total tax burden distribution by income levels are meager.

Rostvold found the composite rate structure of property, sales, and personal income taxes in California to be steeply regressive in the entire range of family income levels from \$2,000 to \$10,000. In California, the family unit with \$2,000 of income dedicated 10.7 percent of its annual income to property and sales taxes. The family with \$10,000 of income allocated 5.33 percent of its annual receipts to all three taxes. Between \$10,000 and \$20,000 the burden distribution tends to be slightly progressive.⁷ Rostvold classed the overall pattern of burden distribution between \$2,000 and \$4,000 as "socially intolerable." He concluded that social equity demands that some remedy for lower income households must emerge from the legislative process.⁸ Since federal taxes are not included in the California study it is not applicable to the total tax burden but does tend to support results of this study for state and local taxes.

In a study of Minnesota state and local taxes, the ratio of tax payments to current (1954) income was U shaped as reported by Brownlee.⁹

⁷Gerhard N. Rostvold, Financing California Government (Belmont, 1967), pp. 82-83.

⁸Ibid., p. 84.

⁹O. H. Brownlee, Estimated Distribution of Minnesota Taxes and Public Expenditure Benefits (Minneapolis, 1960).

The lowest income groups paid the highest rate, the middle-sized income groups paid the lowest, while the highest income groups paid a higher rate than the middle. These rates were 14.8 percent, 5.3 percent and 9.6 percent respectively.

Total taxes as paid by different income levels in the United States for 1958 were reported as nearly proportional by Weisbrod.¹⁰ State and local taxes showed a regressive tendency while federal taxes were progressive.

Summary of County Tax Burdens

The distribution of per capita tax burdens among Oklahoma counties was presented and analyzed in this chapter. The amounts of taxes per capita paid to county, state and federal governments were tested for degree of progression in relation to income and wealth. Regression equations used in these tests showed local taxes to be regressive to both wealth and income. Total state taxes were proportional to income but showed a tendency to be regressive to wealth. Federal taxes were progressive in relation to income but were proportional as to wealth. The total tax burden was progressive to income but at a lesser degree than federal taxes.

The deviations between the actual and predicted local taxes were analyzed in an attempt to locate factors influencing variation. Lack of uniform property assessments, urban and metropolitan growth, and unique situations such as military establishments seem to account for the larger deviations.

¹⁰Burton Weisbrod, Spillover of Public Education Costs and Benefits (St. Louis, 1963).

Local governments were also analyzed in terms of relative performance. A set of index numbers for local revenue, contributions from state government, local effort for state taxes, and per capita income were estimated for each county.

The total tax burdens per capita by counties were estimated and averaged \$580 for the state. Of this total, local taxes amounted to \$65, state taxes \$123, and federal taxes accounted for \$392.

CHAPTER VI

ALTERNATIVE MEANS OF MEETING

THE PUBLIC REVENUE PROBLEM

In the previous chapters data were presented which indicated public revenue growing at a slower rate than demands for public services and facilities. Comparisons and analyses were presented which not only showed the relative position of Oklahoma with the nation, but also indicated the impact of taxes and other revenues on different sections within the state. Some counties have relatively low revenues per capita which implies not only less public services but perhaps lower quality.

In some instances the low revenues are apparently due to a lack of resources from which to tax needed funds. In others it may be due to failure to extract adequate revenues because of improper assessments or other faulty structures.

It was shown that state and federal supporting aids to local governments are growing as well as federal aid to the state. Grants-in-aid are usually made for a specific purpose, such as support of a public welfare program or local schools. They also may be made for the purpose of "equalizing" expenditures or revenues between the poorer and more prosperous governmental units. In either instance the objective is to improve the welfare of society. If grants-in-aid are to be most effective in meeting this objective, then there must be some means of determining equitable distribution of these revenues. This means that the tax

structure of the recipient government must be equitable in relation to that of other governments receiving the same sort of grants. In other words, the units should be paying taxes according to their respective abilities to pay. A local government may keep revenues down in order to receive larger grants-in-aid.

Obtaining adequate revenue to provide local services, such as schools, roads, etc. is the most important problem of county and municipal governments. Although state and federal aids are helpful, the local governments have been hard pressed to obtain adequate revenue to meet growing demands for these services. This is especially true in rapidly expanding urban areas. At the same time local units that are experiencing population declines face the problem of maintaining governmental functions at a much higher per capita cost.

Local governments in rapidly growing areas have not adapted quickly to changes necessary to function under the impact of economic growth. Cities and towns with a declining population find that taxes cannot be reduced along with the shrinkage in the property tax base. In fact, some local governments in economically depressed areas show the highest assessment ratios as can be seen from examining county assessments in Oklahoma. Meeting the impact of a changing economy on local governments requires adjustments which may be made by selecting courses of action from numerous proposals.

The approach to consideration of alternative courses of action to follow must be preceded by an examination of the causes for needed action. In earlier sections it was shown that local taxes are a function of income and wealth. To this extent the local unit of government is prevented from providing adequate public services for its citizens if

they have low incomes and/or low property values. However, a conflict arises with citizens from other local units that are better off when revenues of the latter are used extensively in supporting citizens with low incomes.

Evidence of this type of reaction in Oklahoma is exemplified by the distribution of welfare payments, an extreme example. Of course, the sales tax takes a larger proportion of income from the lower income levels, but these counties get more of the aid. The Welfare Commission publishes annual reports on this assistance and measures the amount returned to the county against the sales tax payment made by the local citizens. Table X in the Appendix shows these data for one year. The citizens of Texas County for instance, pride themselves in the fact that they get much less aid than they pay for, but they are not elated over their tax money going to counties that gets benefits 12 times what they pay in.

This sort of relationship can be applied to some extent in the case of federal aid to states as well as that going directly to local units of government. Some organized groups and individuals place considerable significance on the growth in federal aid to states and local units. Table XL shows a long-time trend in a different respect from that pointed out in earlier sections. These data definitely reflect the growing proportion of federal aid to local and state governments. The excess of state aids over federal has narrowed as shown in the table.

Before analyzing the choices open to citizens, a brief review of the causes of the situation will be enlightening. Aside from the economic reasons, centered chiefly on income disparity, there are many other fundamental causes of inadequacies of local governments to meet the needs

of the public. Local and state governments have been analyzed by organizations of professors, business men, political leaders, and others.

TABLE XL
FEDERAL SHARE IN LOCAL GOVERNMENT

	Total Local Direct Expenditures	Federal Grants-In-Aid		State Aids To Local Units	Excess of State Aids To Local Units Over Federal Aids to States
		To Local Units	To States		
(in millions of dollars)					
1902	959	4	3	52	49
1927	6,359	9	107	596	489
1952	20,073	237	2,329	5,044	2,715
Fiscal Year 1963-1964	50,964	956	9,046	12,873	3,827
Budgeted- Fiscal 1966-1967		14,700			

Source: Modernizing Local Government, CED, July 1966.

Local governments collected 53 percent of the total combined taxes of national, state, and local governments in the U. S. in 1932. By 1959 they collected only 14 percent despite substantial increases in local tax collections. Bowyer and Stuart list the reasons for these declines as: (1) state constitutional and statutory limits on property taxes,

(2) the difficulties of local administration of nonproperty taxes such as the income tax, and (3) the unwillingness of some state legislatures to give local governments authority to tax nonproperty tax sources.¹

These writers also class state supervision of local financial affairs as

(1) those systems of supervision that tend to be restrictive by attempting to establish minimum standards for conducting the fiscal affairs of the local government or through outright prohibition of specific practices such as limiting the amount of indebtedness; or (2) those techniques that tend to encourage localities to exceed a bare minimum through their own initiative.²

With reference to the Oklahoma situation in terms of the relative decline in local tax collections, statutory limits are no problem since the limit is 35 percent of market value and few counties are close to this figure. On the contrary, the Tax Commission and State Equalization Board have exerted efforts to get all counties to assess at a minimum of 20 percent. As to the third point, Oklahoma legislators as previously cited have given authority to towns and cities to tax nonproperty tax sources. In regard to the classification of state supervision, Oklahoma probably practices both systems to some extent, but this point is not to be argued here, except to say that the second point is vital to the success of grants-in-aid or revenue sharing programs.

¹John W. Bowyer, Jr., and Richard Kenneth Stuart, "State and Local Administration," Public Finance, ed. Richard W. Lindholm (New York, 1965), p. 633.

²Ibid.

Inadequacies of Local Units

The Committee for Economic Development is a national nonpolitical organization of 200 leading businessmen and educators that has sponsored studies of a number of public issues and published policy statements concerning these. One of these studies lists the weaknesses of local governments as follows:

1. Very few local units are large enough -- in population, areas, or taxable resources -- to apply modern methods in solving current and future problems. Less than half contain as many as 1,000 people, less than 10 percent have more than 10,000 inhabitants; and less than 1 percent have over 100,000. Even the largest cities find major problems insoluble because of limits on their geographic areas, their taxable resources, or their legal powers.
2. Overlapping layers of local government -- municipalities and townships within counties, and independent school districts and special districts within them -- are a source of weakness.
3. Popular control over local governments is ineffective or sporadic, and public interest in local politics is not high. American voters collectively must select over 500,000 local elective officials -- often obscure personalities with inconsequential duties. Less than 30 percent of American adults vote in separately held city elections, while over 60 percent vote in Presidential contests. County, school, township, and special district elections commonly attract even smaller fractions of voters.
4. Policy making mechanisms in many units are notably weak. The national government has strong executive leadership, supported by competent staff in formulating plans that are then subject to review and modification by a representative legislative body. Comparable arrangements are found in most cities, but seldom elsewhere among local governments.
5. Antiquated administrative organizations hamper most local governments. Lack of a single executive authority, either elective or appointive, is a common fault. Functional fragmentation obscures lines of authority.
6. Positions requiring knowledge of modern technology are frequently occupied by unqualified personnel. Except

in large cities, most department heads are amateurs. The spoils system still prevailing in parts of the nation has deep roots in many local governments, but is only one source of this difficulty. Pay scales are usually too low to attract competent professional applicants. Further specialized skills in the public service are³ too often held in low esteem by influential citizens.

In earlier writings two authorities present a different view on the first weakness cited above. Bowyer and Stuart state that this is a common fallacy in appraising governmental administrative efficiency and that too much centralization can be more inefficient than functioning through smaller units.⁴ These authorities do however generally agree with the second and third points put forth by CED and perhaps imply recognition of some of the others.

Correcting these weaknesses is not a simple matter. Proposals often made suggest stiffer requirements for obtaining grants-in-aid from higher governmental levels. These proposals tend to overlook the basic needs for revenue necessary to improve local government, particularly for the smaller units. Often local citizens distrust the competence of state and federal governments to render satisfactory local service. Some assistance programs in recent years have tended to perpetuate the problems rather than aid in solution of them.

This study is concerned with financing public services and not with governmental reform. However, CED proposals for changes in local governments include reducing local units by 80 percent. This raises a question as to criteria for selecting the local units to consolidate or survive independently. In the final analysis, the ability of the unit to raise

³Committee for Economic Development, Modernizing Local Government, A Statement by the Research and Policy Committee (New York, 1967).

⁴Bowyer and Stuart, p. 635.

revenue may be the determining factor with the low income communities coming under state or federal control of local affairs. If the economic and social well-being of the local citizens are enhanced by this development then this solution may be the most acceptable. It would appear, however, that a different set of rules may be needed for the small local governments than those applied to larger urban centers.

In a later report CED presents general recommendations and specific proposals for changes in state-local fiscal relations as follows:

1. States should take greater responsibility for paying for education and welfare, either through direct expenditures or through grants-in-aid, in order to help equalize and improve the financial ability of local governments to meet their needs in these fields.
2. States should accept full responsibility for assuring state-wide equitable and uniform assessment of real property. Assessment ratios of all classes of real property, including land, should be equalized on the basis of market value. Limitations on local powers over property taxes and debts should be removed from state constitutions and, where desirable, should be imposed only by statute.

Property tax exemptions for special private interest groups such as homesteaders and veterans should be abolished. If states continue to require such subsidies through property tax exemptions they should reimburse local governments for the revenue losses incurred. States and local governments should also negotiate with private tax-exempt organizations to pay for direct public services rendered. States, the national government, and other public bodies should pay local governments a fair share of the local public service costs applicable to their properties.

3. If they need more revenue, state governments should broaden the coverage of services under a general retail sales tax, make more effective use of such a broad retail sales tax, and make greater use of the personal income tax.

States should permit local governments to impose general retail sales taxes and personal income taxes only in the form of supplements to state taxes.

4. The national government through the Congress and the Bureau of the Budget should appraise the grant-in-aid system and establish procedures for a regular review of individual grant-in-aid programs. The goal of the review should be to promote efficient use of public funds, to further beneficial participation by state and local governments, and increasingly to distribute funds according to the location of poor persons and the shortage of resources in poor jurisdictions.

Two major plans have been advanced to deal with a potential federal budget surplus and to overcome restraints on state finance. One is a plan for the national government to provide general assistance grants to the states. Essentially, this plan would transfer funds from the national government to the states primarily on the basis of population with practically no restrictions as to their use. The other plan would provide federal income tax reduction in the form of a partial tax credit -- on top of the deductibility provisions in the present federal income tax -- allowing individual taxpayers to offset a portion of their payments of state income taxes against their federal income tax liability.

The general assistance plan makes use of federal income tax revenues and would be at the expense mainly of future federal income tax reductions. The partial tax credit plan would reduce future federal income tax revenues but encourage state income taxation.⁵

CED Recommendations Applied to Oklahoma

The suggested reduction in local units has been underway in Oklahoma first by elimination of township units and secondly by consolidation of school districts. The latter move has been accomplished through the legislature as a requirement for state aid. County modernization attempts have been limited to the recent establishment of district attorneys and proposals in the 1968 legislature to replace the jurisdiction of county school superintendents with supervision by the State Department

⁵Committee for Economic Development, A Fiscal Program for a Balanced Federalism, A Statement by the Research and Policy Committee, June 1967, pp. 11-14.

of Education. The latter proposal grew out of the school district consolidation movement and state subsidy of county superintendent salaries. These changes have probably been made because of necessity or other pressures rather than following guidelines established by CED. Other suggestions for solutions to local problems have apparently received little attention state-wide.

Oklahoma seems to have met or is currently considering changes which are contained in the recommendations for improvement in state governments. The state has been at the top in direct welfare expenditures. Grants-in-aid to education have been made for a number of years, and as presented in Chapter IV, are above the average share of income contributed to this purpose. In welfare administration the state retains control, while the school districts are largely responsible for state aid funds for local schools but under general supervision of the state.

The passage of Senate Bill 141 by the 1967 Legislature may meet the recommendations contained in Items 2a and 2b. This bill provides for the physical inspection and revaluation of all real property in Oklahoma by January 1972 and reassessment every five years. This legislation is expected to accomplish what previous attempts have failed to do -- obtain a more equitable valuation within and among counties with respect to market value. County assessors could proceed after passage of the bill in May of 1967 but are required to start revaluation by January 1, 1969. Item 2c dealing with limitations on local powers does not appear to be the problem in Oklahoma since most effort has been directed at getting more state control which may be the best way to correct the property tax problem.

Homestead exemption of the first \$1,000 valuation is a practice in Oklahoma and it can be argued that the state has compensated for this through educational and other grants-in-aid. Parcher and Dyke estimated that removal of homestead exemption would increase tax revenue by 26 percent in Payne County.⁶ If this is an average situation, local tax revenues in the state could be increased considerably by this one action alone. It is argued that repeal would throw a taxation burden on the small low-income homeowners. Parcher and Dyke offer an alternate proposal of taxing one-half the first \$2,000, which would increase tax revenue by 6 percent.⁷

Property tax exemptions for special interest private groups have attracted little attention in Oklahoma. In some states officials have removed exemptions and are collecting revenues from these sources. Byron E. Calame reported in The Wall Street Journal, November 16, 1966, that cities and other taxing units are trying to collect taxes on certain properties owned or operated by churches, colleges, fraternal orders and other tax exempt groups. Generally, the drive is to tax properties not specifically used for educational, religious or charitable purposes, but in some instances exemption under even these latter uses is being questioned. Many groups including churches, in other states have voluntarily offered to pay for local services rendered.

With the large amount of public owned property created in Oklahoma, the recommendation that state and national governments pay local units

⁶L. A. Parcher and Paul T. Dyke, An Analysis of Real Property Assessments in Payne County, Oklahoma, Oklahoma State University Processed Series P-525 (Stillwater, 1966), p. 21.

⁷Ibid., p. 22.

for services rendered is certainly applicable. Provisions are made for special payments in some instances involving federal lake projects, but generally, the removal of property from the tax rolls by such projects creates a local revenue problem despite other benefits which might accrue.

In the case of general retail sales tax exemptions, Oklahoma could possibly gain revenue by applying it to certain personal services now exempt. The income tax law has been strengthened as pointed out earlier, but this might be a further means of increasing state revenue.

The fourth recommendation and its several parts are general in nature and cannot be reviewed from one state's standpoint alone. The validity of these are really a national issue but they appear to have merit. This is particularly true of the part which encompasses current discussions in congressional circles of revenue sharing. The last point, relative to income tax credit could work in Oklahoma but might not apply in states with no broad-based income tax. This will be discussed further in a later section.

The Problem in Oklahoma

Both the need for revenue and the problem of raising the funds were set forth by Jim Young in The Daily Oklahoman, May 14, 1967, when he made the following statements:

Where's the money coming from?

This seems to be a standard question in Oklahoma government today as legislators strain to stretch available funds more and more. This seems to be the question that plagues agencies dreaming of expanded programs, educators faced with loss of faculty because of low pay, and increasing demands by the federal government for states to meet minimum program standards. The legislature this session is appropriating \$177,214,449, which represents approximately \$18 million more than was available during the last fiscal year. But

agencies submitted proposed budgets calling for around \$100 million more in spending than the state had on hand.

Governor Dewey Bartlett was elected on a platform of "no new taxes" and the legislature made no attempt to push past this obstacle.

Young went on to say that certain state leaders maintain that a tax increase for Oklahoma in the future is inevitable. How much money is needed and the source of the funds seems to be a big question. Some indicated \$30 million in new money would give Oklahoma a well rounded program, while others would go higher. Evidence from requests tend to support a higher figure for the state. However, this is on the assumption that local governments will not increase their proportionate share at a faster rate.

Sales tax, gross production tax, and income tax were the sources Young suggested as the most likely big money sources. An increase in state sales tax seems to be out of the question in view of the use made by cities and towns of this source. One of Young's legislative sources predicted the sales tax would become more and more important in cities and towns, possibly eliminating this as a source of additional revenue for the state. Opposition to an increase in gross production taxes would certainly come from the oil industry which is faced with competition from foreign oil. This leaves the income tax as the most likely source of additional revenue.

This article points up a paradox in state political and tax revenue issues. In a past gubernatorial campaign one candidate had as part of his program a one cent increase in the sales tax. Whether this issue caused his defeat is a matter of debate but at a later date the sales tax increase was submitted to the state voters and failed to carry. Another part of the contradictory situation is that the legislative body seemed

to recognize the need for more tax revenue in 1967 but were reluctant to challenge the Governor's apparent mandate from the people.

However, as cited in other sections, the 1965 legislature granted power to cities and towns to levy a 1 percent sales tax upon approval of the voters. In each instance, up to January 1968, this tax had been approved in those municipalities calling an election on the issue. The question arises as to why the voters have implied opposition to tax increases in general, and specifically against the sales tax, only to approve this levy in local elections. Apparently, the benefit principle is more easily recognized and accepted when the money is to be spent close to home. An untested hypothesis is that local property owners work harder for passage of the city tax to avoid an increase in property taxes.

Although most of this section has dealt with state revenues, the problem is also serious at the county and local levels. Funds are not available to meet the desires of the people for more public services at the local level. The adoption of the sales tax by cities and towns may be a start toward a reversal of the trend discussed at the beginning of this chapter. It could be only the close view of need and the benefits accruing to the voters that prompted the approval of the tax.

The lack of revenue at the local level has contributed to the state problem since many local functions have depended on state raised revenue to keep them going. Roads and schools are prime examples of this shift. To this extent an increase in local revenue might relieve the strain on state funds. This, of course, depends on the extent of application and the allocation of the funds at the local level.

The revenue problem in Oklahoma results largely from the income position of its citizens. In 1962 the state was ranked 39th in per capita income, and income was 81 percent of the national average. In 1966 the per capita income of the state was 84 percent of the national average. The relationship of expenditures and personal income was presented in Chapter IV. This does not mean that the revenue system is adequately meeting state needs but points up the fact that improved incomes would lessen the problems of public financing. Improving incomes may take a long time so public revenues may have to be gained by taking a higher percentage of present incomes or from further federal assistance.

Alternative Solutions to the Problem

Legislative events during 1968 should have considerable influence on the future financial problems of state and local governments in Oklahoma. The struggle to prevent new state taxes in the face of demands for more funds for education was prevalent at the opening of the 1968 Session. If no new revenue is found then the problem remains more acute than in 1967 since there was less natural growth in revenue. If token measures are passed, the relief will be only temporary and final solutions will have to await longer run means such as property revaluations or some action from subsequent legislative sessions.

The federal-state revenue sharing proposals may offer the best long-run solution for state financial problems. One of these, the Heller plan, was proposed in 1964 but was laid aside due to the fiscal strains of the Vietnam crisis. The plan has drawn many varied reactions from congressmen, governors, journalists, and economists. Broadly, the revenue sharing proposal is that a given percentage of a federal tax aggregate such as

total revenue from the income tax be put into a trust fund account. The funds in this account would then be distributed to state governments on the basis of an automatic distribution formula. The formula would be applied after the fund was divided into two portions -- "equalization" and "major". The latter would go to all states by a specified formula while the other would go only to the seventeen states with the lowest per capita incomes.

The size of the portions as well as the total dollars diverted is a political-economic variable and the adoption of the distribution formulas is apt to be very controversial. However, Plummer used proposed formulas for each portion with three assumed levels of the equalization portion. He found that the pattern of per capita receipts of shared revenues flowing to individual states varies greatly as the relative size of the equalization portion increases.⁸ Whereas all grants-in-aid taken together have no significant equalizing or disequalizing impact, revenue sharing would have significant equalizing impact without the equalization portion.

The general courses of action open to Oklahoma citizens in raising more revenue are about the same as faced by citizens of other states. They may choose to pay for added services by raising local revenue or seek more assistance from higher levels of government. If this assistance is desirable, it can be obtained by continuing the functional grants-in-aid from state and federal governments or through a revenue sharing plan. Some Oklahoma state taxes are shared with local governments but on a conditional use for specific functions.

⁸James L. Plummer, "Federal-State Revenue Sharing," The Southern Economic Journal, XXIII (1966), pp. 120-126.

Within the framework of either of the general courses of action presented above is the decision of whether to expand and improve public services or to curtail government activity. Of course, if the latter choice is the wish of the voters, then the other choices become irrelevant since the impact under such a course would result in entirely different reactions. To curtail government functions involves decisions as to which activities to dispense with. Agreement on these would be difficult to achieve and result in some groups and areas being favored over others.

For the moment, assume that Oklahoma citizens wish to strengthen the present system of government fiscal relationships of local state and federal levels. In selecting alternatives the voters in each local unit must appraise its present position and potential. This amounts to comprehensive fiscal planning which must involve the relative position of the unit with other units as to equity of taxation.

Equity could perhaps be the watchword throughout any plan to improve the structure of the Oklahoma tax system. This study has indicated certain inequities relative to income and assessed valuation of counties. A closer study of individual situations would likely uncover more inequities. This raises the big question of just how equity is to be determined. This study has employed income and wealth as measures of tax paying ability and implicit in these is the formula for equity. Taxes are levied generally according to the common notions of justice -- ability to pay or benefits received. The high proportion of local revenue coming from property tax leaves the equity principle in doubt at the local level as non-property owners are not likely to pay much directly

to support local government. However, the rapid adoption of the sales tax by cities and towns will insure some support from all.

Specific suggested alternatives for raising more revenue for state and local functions can be made from this study. Generally, the outline should cover the following:

1. Endeavor to get an equitable assessment of real property under the program provided by Senate Bill 141.
2. Revise and redefine the eligibility lists of fraternal and other organization property exempt from tax levies.
3. Repeal or modify the homestead exemption law.
4. Revise the state income tax law by increasing rates, repealing certain deductions, or revising personal exemptions. Rates could be more progressive.
5. Increase taxes on beer, liquor, cigarettes and tobacco.
6. Enact a new state severance tax on natural gas.
7. Broaden the base of the state sales tax to cover certain personal services not now subject to this levy.
8. Collect fees on more uses at state parks and other public recreational facilities.
9. Strive to get a federal revenue-sharing plan enacted in congress.

Some proposals that might improve the revenue system in Oklahoma and result in meeting needs more adequately are:

1. Cities and towns could divert some of the sales tax collections to relieve the financial problems of public schools until a more permanent solution is developed.

2. Provision for appointment of tax assessors by joint agreement of county and state officials.
3. Consideration and study should be given to abandonment or revision of the personal property tax, particularly that on household furniture.
4. Modify the present system of earmarking funds so that legislators can have more leeway in determining budgetary needs.
5. Re-evaluate county allocation formulas for distribution of state funds to determine if distribution of benefits is equitable.

The Effect of Changes

Some of the alternatives listed above are now under trial while some may have been attempted in some manner during the past. These are possibilities from which to choose one or a combination. The suggestions for raising more revenue will first be discussed from the standpoint of consequences likely from using a particular alternative.

As previously mentioned, Oklahoma is not the only state struggling with revaluation of real property. This general concern with assessment practices results not only from need for local revenue but also a desire to correct the inequities in property taxes. Equity as used here is not the theoretical issue of taxation but rather the practical application of a uniform measuring standard. The variation in property assessments are reflected by assessment ratio studies. The U. S. Bureau of the Census calculated that assessment ratios varied by an average of

25.8 percent from the median ratios for each state.⁹ These results were for nonfarm homes only.

The assessment ratio studies for Oklahoma (Appendix Tables XI and XII) show a wide range of assessment ratios between counties of the state. In some counties there is a disproportionate assessment between rural and urban property with rural property assessed higher in some counties while urban is higher in others. The average ratio for the state was 20.72 in 1961 and the application of 20 percent in adjusted assessed value would in effect lower taxes. But if all property was assessed at say 30 percent then taxes could be increased without raising rates.

Parcher and Dyke checked assessment ratios on both rural and urban properties in Payne County and found urban property assessed at a higher ratio.¹⁰ The rural property sales which were studied showed an assessment ratio of 13.5 while improved urban property was 20.6 and unimproved urban property 4.6. The Tax Commission survey showed Payne County urban and rural properties with similar ratios, 21.14 and 20.53. The fact that the former study covered a longer period with 2 later years probably accounts for most of the difference. Part of the difference can be explained by the elimination of certain speculative tracts from the analysis in the Payne County study. The Tax Commission survey showed statewide average ratios of 21.42 for urban and 18.62 for rural property.

In the Payne County study of uniform assessments it was found that a 2-point change in the assessment ratio with homestead exemption would raise revenue by \$149,288 and by \$201,191 without homestead exemption.

⁹U. S. Bureau of the Census, Census of Governments, 1962, Property Values, II, 1963.

¹⁰Parcher and Dyke, p. 25.

Property values assessed at 26 percent of market value would increase revenue by 51 percent over that actually obtained under existing assessments.¹¹ This would mean an increase of 35 percent in revenue from an average ratio of 26 compared to one of 20.

If property is assessed uniformly, taxes levied are likely to be higher but the burden would be more equitably distributed. The cost of the assessment procedure itself will necessitate more taxes. When property taxes are not uniformly applied allocative effects may easily influence market values. Those with high assessment ratios may demand a relatively lower price. Uniform assessments may not eliminate allocative effects but they will be more systematic in their impact. Since more taxes can be raised either by increased rates or by higher evaluations, taxes would not have to be raised to the limit of reassessment values but could be checked by applying a lower rate. Some object to raising values because this opens the door to increased taxes where the rates levied are now at statutory limits.

The second alternative listed above concerns the exemption of organization property and as mentioned earlier in this chapter is currently receiving nationwide attention. The exemptions for the organizations themselves seem to be as secure as ever. Calame reported in the article referred to earlier that the Supreme Court refused to review a Maryland court ruling which upheld that state's exemption of houses of worship from taxation. A sizeable amount of property is removed from tax rolls as the holdings of churches expand. Assessors are attacking

¹¹ Ibid., p. 27.

many exemptions on the ground that property owned by churches is not being used for the purposes for which exemption is allowed.

The growing list of tax exempt property results from expansion of the organizations and also from the entry into such businesses as homes for retired people. Some church operated retirement homes have been put on the tax rolls after courts ruled that charging the residents a fee causes loss of exemption rights. The extent of such exemptions in Oklahoma is not known but the nationwide concern with the problem merits attention by state officials and taxpayers. There is a need for a more clearly defined and possibly more narrow tax exemption rule for groups classified as "fraternal".

Calame reported that Vanderbilt University is paying taxes on the chancellor's house, 18 fraternity houses owned by the school, a faculty club, and other properties. Fraternities under the group plan at Cornell have also been declared subject to tax with a considerable bill for back taxes. Indiana requires annual application for exemption and each case is reviewed with about 70 percent of those reviewed in 1966 declared non-exempt.

Under the present system of homestead exemption the first \$1,000 of assessed value is exempt upon application of the owner if he occupies the home. As pointed out earlier, removal of this exemption could increase local taxes by as much as 25 percent. However, it has been argued that this would not be fair to homeowners with houses of low value, assuming that these owners also have low incomes. Critics of homestead exemption have attacked the practice because there is a tendency for many homes to be assessed near the \$1,000 limit when proper assessment in relation to market value would be higher. If the revaluation process

is carried out efficiently, this defect may be corrected in which case there may be no need to repeal homestead exemption. After reassessments are made, the effect of homestead exemption can be more accurately evaluated.

The state income tax laws have been strengthened, as pointed out in other sections, but there are other suggested opportunities for obtaining more revenue from this source. Restoring the one-third cut in income taxes made in 1947 would add an estimated \$10 million in revenue. Repeal of deductions for federal income taxes paid could mean \$15 million to \$20 million in additional revenue. Some advocate abolishing the \$1,000 personal exemption which would raise an estimated \$8 million. It is not likely that all of these would be applied, but any one or a combination of partial changes would add revenue. If these are not made there is the possibility of increased rates, particularly for higher income levels.

Increasing taxes on items such as tobacco and alcoholic beverages often raises a question as to the intent of the tax. If the chief purpose is to regulate consumption, then higher tax rates may decrease purchases. If raising more revenue is desired, then higher rates could reduce consumption enough to defeat the objective. Some argue that worthy causes, such as public education, should not be dependent on revenue derived by taxing such sources since this tends to justify these activities. However, these taxes are lucrative sources of revenue and higher rates may be justified so that society can recoup the high social costs associated with consumption of the products.

A new severance tax of one cent per thousand cubic feet on natural gas is advocated by many who wish to increase state revenues. Since an

estimated 80 percent of the gas is sold out of the state it is argued that little of the estimated \$6 million to \$10 million revenue would be passed on to state residents.

Farm leader's fought for years to get legislation exempting farm production items from sales tax. Yet certain services, such as haircuts, have been exempted since the tax was levied. The latter are more clearly consumption services than items on which farmers paid tax for years. Expenditures for personal services of all kinds have been growing faster than other consumer expenditures and this offers a new source of sales tax revenue.

Recently, considerable controversy has developed over charging fees at state parks and other public recreational areas. Those opposing such plans to charge fees to parks, argue that they were built at public expense and should be free. Those favoring application of fees contend that the users should pay for benefits received. Since these fees would only supplement existing revenue for operating such facilities, it seems logical that those who benefit should pay. Those opposing fees say that charges should be levied only to the extent of the marginal cost of operating these facilities. In other words, fees should only be charged for operation costs above costs of maintaining the facilities with no use and since it costs only a nominal amount to have more persons use the facility, use and enjoyment should not be discouraged with a fee that may not pay for its cost of collection.

An increase of federal participation in financing state and local governments seems imminent. Although opposed by those who favor states rights and local rule, some plan of federal revenue-sharing seems to offer the best means of equalizing the quality and quantity of public

services. The progressiveness of federal taxes tends to place more impact on those with ability to pay. If the distribution of federal aid was worked out on a basis of increasing benefits to those areas less able to pay, then greater equity will result. Equality of education is difficult to attain in low income areas, and per capita incomes in Oklahoma are relatively low.

Now, a brief review of the improvement suggestions is in order. Unless the sales tax levied by cities and towns is partially used to relieve or supplement property tax burdens, state revenue problems of continuing state aid will become more difficult. As previously mentioned, the city sales tax could result in further inequities in tax burdens between rural and urban people in terms of benefits received. It does increase the regressiveness of local taxes beyond that reported in this study.

Assessors have not generally had an adequate staff to do an efficient job of assessing property. Also, salaries have not been sufficient to attract trained personnel. The assessor is subject to a vote of the people every two years and as a result must avoid arousing too many voters with assessment adjustments. Appointment of qualified assessors under the general supervision of the Tax Commission and adequate staffing should result in a more equitable tax system and also raise more revenue where needed and the ability to pay exists.

The personal property tax is recognized as ineffective from the standpoints of equity, assessments, and growth of revenue consistent with economic changes. In 1966 total personal property assessed locally in Oklahoma amounted to \$595 million compared to \$716 million for public service assessments made by the State Board of Equalization. Locally

assessed personal property equaled nearly 20 percent of total net assessed value in the state in 1966. Therefore, discarding personal property taxes without provision for replacement revenue would have quite an impact. Since it is the real property owners who pay most of the personal property tax it could possibly be absorbed by improvements discussed above. Much of the personal property is never placed on the roles.

Personal property taxes in North Dakota were subjected to an exhaustive study by Ostenson and Loftsgard who found that there was a growing effort to single out personal property for property tax relief. This interest was based on the feeling that industry, business, and farming are unfairly and unevenly treated under this tax.¹² Property tax relief requires finding replacement revenue from nonproperty tax sources and as pointed out earlier the sales tax could partially do this.

The question of earmarking was discussed at length in Chapter III, but reports from legislators in early 1968 indicated that this practice might be reviewed if not modified.

The shifting of population from rural areas of Oklahoma may mean that road systems need to be re-evaluated so that funds can be more efficiently used. Allocating county highway funds on such revised plans could result in improved road systems where most needed. Widespread withholding of state allocated county road funds is not politically expedient and perhaps unjustified from the basis of benefits. But an updating of road mileage in the allocation formula might be in order.

¹²Thomas K. Ostenson and Laurel D. Loftsgard, An Appraisal of Personal Property Taxes in North Dakota, North Dakota Experiment Station Bulletin No. 467 (Fargo, 1966), pp. 18-19.

Although not listed as an alternative, raising the general income level in Oklahoma relative to the national average is an ideal though for now an impractical solution to obtaining more revenue. Data in this study reveal very clearly that low incomes are associated with inadequate revenue problems. The counties with low per capita incomes are those with low tax bases and low expenditures but they contribute a higher percentage of their income for these services. This may be primarily due to governmental units that are too small for efficient operation rather than the fault of the tax system. Enlarging government units involves political and social problems.

In summary it should be stated that perhaps no one alternative to public revenue problems seems adequate. Despite strong arguments for more federal aid the final solution lies in a better informed public that will come to grips with their problems and seek the best solutions. The solutions adopted should not be at the expense of disadvantaged areas but should aid residents of such areas in contributing more to social and economic growth of the country. How well these work will depend on the formulas used and their application by legislators and administrators.

Ultimate decisions on taxes and revenues are the domain of the public through their elected representatives. We rely on the political process to determine the optimum level of taxes and expenditures, and to resolve problems of equity in the distribution of benefits and costs.

CHAPTER VII

SUMMARY AND CONCLUSIONS

This study was prompted by the continuing pressure for more revenue for state services and institutions in Oklahoma, and reactions to similar conditions in other states. A number of recent studies on a national basis and some for individual states had focused attention on the issues of public revenues and expenditures. In some states, educational programs on these issues have been conducted through public discussion groups by Extension Services. A search for information on the situation in Oklahoma revealed that no recent studies had been conducted except by various state agencies concerned with their individual problems.

The objectives of the study were to obtain a more precise knowledge of state and local taxes as they relate to the incomes and needs of state citizens, and to measure these taxes in terms of principles and performance. Income and wealth were selected as the best measures of performance, and, lacking data for person to person comparisons, per capita estimates were used for the seventy-seven counties in the state.

Oklahoma applies about the same general types of taxes as other states, but the study revealed that the revenue raising mix is considerably different. Taxes in this state have generally been selected on the basis of performing the main function of providing revenue, but some of these are designed to regulate certain businesses as well. This study was concerned with examining the effectiveness of the taxes in meeting

the cost-benefit and ability-to-pay principles as well as determining the degree of progression of the taxes.

An understanding of the role of government and the political process is essential to public comprehension of revenue needs and how they should be met. There is a complexity of state, local and federal governments involved in the total process and quite often attention is centered on one level without consideration of the interaction taking place. Awareness of the importance of this interaction is often lacking in a majority of citizens.

Revenue

The general sales tax yields the largest revenue of any single tax in Oklahoma. Now used in cities and towns, this tax has become popular in a majority of the states because it meets the tax canons of easy administration and certainty of collections. Another feature of the sales tax is flexibility. But it violates the ability-to-pay principle since it takes a higher percentage of income from the poor.

Gasoline taxes yield the next largest amount of state revenue in Oklahoma and is followed closely by the state income tax. The gross production tax yields the fourth largest amount of revenue in the state. A wide variety of taxes and other sources provide the rest of the state revenue. The Oklahoma Tax Commission collects the bulk of the tax revenues and allocates them to appropriate funds.

The various revenues of the state are allocated to nine main types of funds with a number of sub-categories. The general revenue fund is one of the nine and receives less than 25 percent of the total revenue. The assistance fund is the largest with slightly more than 25 percent

of the total. Highway funds are third largest and are followed by special revenue apportionments which are largely for counties.

The per capita general revenue raised in Oklahoma for state and local government is slightly under the national average. The state raises less of its revenue from taxes and much less from property taxes than the average for the nation. The state receives more than the average federal assistance per capita. More revenue is also raised from nonproperty taxes and non-tax sources in this state than the national per capita averages.

Local school districts receive half of the revenue made available to the counties of Oklahoma. Only about one-half of the school revenue is from local sources, with an increasing proportion coming from state and federal aid in recent years.

Earmarking or dedicating revenues was applied to about 75 percent of total state revenues in fiscal 1965. While these include transfer revenues such as federal grants-in-aid for highways and public assistance which must be used for designated purposes, legislative appropriations are less than 50 percent of state raised revenue. Retirement and pension funds, bond retirement funds, and other special funds probably should be earmarked to insure continuity. Highway funds generally meet the cost-of-benefit principle to justify earmarking, but designation of a portion of these funds for counties was challenged in early 1968 on grounds of constitutionality. The future of earmarking revenues in Oklahoma depends on a court decision to be rendered prior to the 1967 legislative session and the subsequent action of the legislature.

Recent tax developments consist of recodification of tax laws, permission for cities and towns to levy a sales tax of 1 cent, passage of

an unclaimed property act, a bill designed to improve assessments of real property, and a 5 cent per pack increase in cigarette taxes.

Public employees per 10,000 people in Oklahoma number about the same as the national average, but the salary scale is lower than average.

Trends in Taxes

Collections by the Tax Commission nearly doubled from 1955 to 1967. Large gains included a threefold increase in state income taxes and estate and inheritance taxes were about four times larger by the end of this period. Gross production taxes showed a slow rate of growth. Projections of individual state taxes from 1962 to 1970 show estimated gains of 40 to 70 percent for taxes connected with income and economic growth. Local revenues grew at a faster rate than state revenues until 1962, but have just about kept pace with total revenue growth since that time. Tax revenues have not grown as fast as other sources of local revenue, but the use of the sales tax by cities may change this relationship.

Expenditures

One reason for lack of public understanding of government expenditures is the widespread publicity given to legislative consideration of the Oklahoma state budget which is primarily limited to dividing the general fund. Information usually publicized does not reveal total state expenditures and leaves many misconceptions in the minds of the public. The budget considered by the legislature shows a much higher percentage for education than is actually allocated for this function from the total state budget. Likewise, the impression is left that the legislative appropriations represent total state expenditures for education when this is not the case. Additional state funds are earmarked for common schools.

Education expenditures are slightly over 30 percent of the total state budget and have generally been about equally divided between common schools and higher education. However, more appropriated funds go to common schools while tuition fees and revenue from other sources are included in higher education expenditures. The rate of increase in state appropriated expenditures going to common schools has been much greater than that for higher education since 1962.

Public welfare expenditures which are earmarked constitute the largest state expenditure category. This department is receiving an increasing number of functions each session of the legislature.

Oklahoma compared favorably with bordering states on educational expenditures when measured by percentage of personal income devoted to this purpose. Performance of state and local combined support is about the national average in this respect and only two adjoining states exceed Oklahoma. However, analysis showed that this state is contributing a smaller percentage of local support to education than the adjoining states.

Higher education expenditures in Oklahoma from state appropriated funds has shown the slowest rate of growth among all fifty states since 1960. However, at that time Oklahoma contributed the highest percentage of personal income in state support for this purpose among the seven states in this area. State effort in terms of percentage of personal income for 1965-66 was above the national average but fifth among the seven states of this area.

Regression Analyses

Local taxes by counties as reported by the Census of Governments were used and state and federal taxes were estimated by counties from state totals. These separate taxes and also the grand total for each county were subjected to statistical tests with regression models using personal income and wealth as independent variables. Per capita amounts were used for all variables.

Local taxes were definitely regressive to both income and wealth, which means that counties with a low per capita income pay a higher percentage of that income to defray local government costs. State taxes per capita paid by counties showed to be about neutral or proportional in relation to income. These taxes indicated a regressive tendency as to wealth.

Federal taxes as estimated for each county, showed a high degree of progression with respect to income. Federal and state taxes exhibited about the same degree of regressiveness to wealth.

Total taxes per capita by counties showed a definite progressive tendency with respect to personal income. This demonstrates that the high degree of progressiveness of federal taxes more than compensates for the regressiveness of state and local taxes. However, total taxes are regressive with respect to wealth.

Large differences between actual taxes per capita in a county and the value predicted by the formulas are largely explained by extreme variations between per capita incomes and assessed valuations. Unique situations, such as military bases, were also contributing factors to the deviations.

Alternatives

A number of alternative solutions to public finance problems in Oklahoma are available if the citizens desire to use them to improve and expand public services. National studies by the Committee of Economic Development suggest a number of proposals for solving state and local government financial problems. These include several tax and government reform measures ranging from reducing the number of local governmental units by 80 percent to the current topic of state sharing of federally collected taxes.

When these proposals are evaluated in terms of applicability to Oklahoma, evidence shows that the state is undertaking tax reform measures comparable to the recommendations. There is also a tendency toward some governmental reform, but it is moving very slowly. The consolidation of school districts has been accomplished through state requirements for aid to local schools. The state has granted permission for cities and towns to levy a sales tax, and a concerted effort is underway to obtain more equitable assessments of real property.

Considerable opposition has been shown for removal of the homestead exemption in this state, but repeal is one means of increasing local revenue. Another CED recommendation for taxing certain exempt properties has received little attention in Oklahoma but is currently yielding added revenue for some localities in other states.

Conclusions

Results of this study support the following conclusions:

1. State government revenue raised for state government support in Oklahoma represents a higher percentage of

personal income than the average for all states in the United States.

2. Oklahoma is contributing a higher percentage of personal income to all education than the average for all states and compares favorably with six surrounding states.
3. An increasing percentage of total expenditures for local schools comes from state funds, while a decreasing proportion of total higher education expenditures is from state appropriations in Oklahoma.
4. The proportion of total revenue used by local schools which is contributed by local governments is smaller in Oklahoma than in most of the surrounding states.
5. A number of tax reforms including expanded sales tax, increased income tax, higher taxes on liquor and cigarettes, reassessment of property and repeal of homestead exemption are available for increasing revenue if Oklahomans desire to use them.
6. Certain improvements can be made in state and local revenue systems to make them more efficient, such as less earmarking of funds, a revised system for selecting county assessors, and revisions in allocation of state funds.
7. Continued expansion of the sales tax in Oklahoma is adding to the regressiveness of state and local taxes.
8. Low income counties generally have low property values and assessments must be a higher proportion of market value than in areas of higher incomes in order to

maintain local government. Some system of state or federal aid probably offers the most acceptable solution to this problem. Sacrificing local control is likely to be more beneficial than sacrificing human resources through lower standards of public service with local rule.

9. Although education is using a high percentage of state appropriated revenue in Oklahoma it remains insufficient to meet the requirements. Education is essential for economic growth and development as well as social improvements. If state and local governments are unable to provide the funds, federal assistance will probably be increased.
10. This study indicates that, even with tax reforms, state and local governments in Oklahoma will be hard pressed to meet public needs unless personal incomes are substantially improved. Likewise, if incomes are improved without tax reforms, the governments, particularly at the local level, will have difficulty in providing adequate services.

BIBLIOGRAPHY

- Allen, Leslie. Oklahoma State Budget Procedures and Practices. Norman: Bureau of Government Research, University of Oklahoma, 1957.
- Bowyer, John W. Jr., and Richard Kenneth Stuart. "State and Local Administration." Public Finance. Ed. Richard W. Lindholm. New York: Pitman Publishing Company, 1959, pp. 625-637.
- Brownlee, O. H. Estimated Distribution of Minnesota Taxes and Public Expenditure Benefits. Minneapolis: University of Minnesota Studies in Economics and Business No. 21, 1960.
- Collins, Robert T., William P. Dillingham, and Samuel A. Rosenberg. "Shifting and Incidence of Taxation." Public Finance. Ed. Richard W. Lindholm. New York: Pitman Publishing Corporation, 1959, pp. 322-350.
- Committee for Economic Development. A Fiscal Program for a Balanced Federalism. A Statement by the Research and Policy Committee New York: 1967.
-
- _____. Modernizing Local Government. A Statement by the Research and Policy Committee. New York: 1966.
- Due, John F. Government Finance, An Economic Analysis, 3rd ed. Homewood: Richard D. Irwin, Inc., 1963.
- Ederer, Rupert J., and Robert C. Riley. "Financing the Public Economy." Public Finance. Ed. Richard W. Lindholm. New York: Pitman Publishing Corporation, 1959, pp. 3-27.
- Ellickson, Donald L., and Raymond C. Jancauskas. "Criteria for Allocating Taxes." Public Finance. Ed. Richard W. Lindholm. New York: Pitman Publishing Corporation, 1959, pp. 297-321.
- Gates, Thomas Virgil, and Phillip G. Hudson. "The Patterns of Public Expenditures." Public Finance. Ed. Richard W. Lindholm. New York: Pitman Publishing Corporation, 1959, pp. 79-101.
- Harris, Robert. Income and Sales Tax: The 1970 Outlook. Chicago: The Council of State Governments, 1966.
- Heuson, William G., Ray G. Paulsen, and Charles E. Ratliff. "Property Taxes." Public Finance. Ed. Richard W. Lindholm. New York: Pitman Publishing Corporation, 1959, pp. 398-427.

- Iowa Extension Service. Financing Our Public Services. Ames: Iowa State University Fact Sheet 2 - MA 1442, 1965.
- Jones, Carl E., and Floyd L. Corty. An Economic Appraisal of Public Revenues and Expenditures in Lincoln Parish, Louisiana. Baton Rouge: Louisiana Agricultural Experiment Station Bulletin 561, 1962.
- Lutz, E. A. Local and State Financing in the United States and New York. Ithaca: Department of Agricultural Economics, Cornell University A. E. Ext. 51, 1960.
- McConnell, Campbell R. Economics, 3rd ed. New York: McGraw-Hill Book Company, 1966.
- Maynard, Cecil D., D. B. Jeffrey, and Glenn E. Laughlin. Estate Planning. Stillwater: Cooperative Extension Service, Oklahoma State University Circular E-726, 1962.
- Maxwell, James A. Financing State and Local Governments. Washington: The Brookings Institution, 1965.
- Oklahoma Department of Public Welfare. Annual Report, Fiscal Year Ending June, 1965. Oklahoma City: Oklahoma Welfare Commission, 1965.
- Oklahoma Municipal Surveys. Ad Valorem Tax Rates 1964-65. Oklahoma City: 1965.
- Oklahoma State Department of Education. The Thirty-First Biennial Report. Oklahoma City: State Board of Education, 1966.
- Oklahoma Tax Commission. Oklahoma Sales Tax and Use Tax Statistical Report. Oklahoma City: 1966.
- _____. Seventeenth Biennial Report. Oklahoma City: 1966.
- Ostenson, Thomas K., and Laurel D. Loftsgard. An Appraisal of Personal Property Taxes in North Dakota. Fargo: North Dakota Agricultural Experiment Station Bulletin 467, 1966.
- Parcher, L. A., and Paul T. Dyke. An Analysis of Real Property Assessments in Payne County, Oklahoma. Stillwater: Department of Agricultural Economics, Oklahoma State University Processed Series P-525, 1966.
- Peach, W. Nelson, Richard W. Poole, and James W. Tarver. County Building Block Data for Regional Analysis: Oklahoma. Stillwater: Research Foundation, Oklahoma State University, 1965.
- Peterson, Everett E., Fred L. Olson, and Jack D. Timmons. An Evaluation of the Major Taxes. (Let's Discuss Nebraska Taxes EC 62-817 D), Lincoln: University of Nebraska, 1962.

- Plummer, James L. "Federal-State Revenue Sharing." The Southern Economic Journal, XXIII (July, 1966), 120-126.
- Rostvold, Gerhard N. Financing California Government. Belmont: Dickinson Publishing Company, Inc., 1967.
- Sharpiro, Harvey. "The Finances of Local Governments." A Place to Live. Washington: United States Department of Agriculture Yearbook, 1963.
- Tax Foundation, Inc. Fiscal Outlook for State and Local Government to 1975. New York: Finance Brief No. 7, 1966.
- Thomas, Robert. Who Pays for Iowa's Public Services. Ames: Iowa State University Bulletin MA - 1347, 1964.
- Thompson, Layton S. Recent Developments in Taxation in the Great Plains. Bozeman: Montana Agricultural Experiment Station Bulletin 608, 1966.
- United States Bureau of the Census. Census of Governments 1962 Property Values II. Washington: United States Department of Commerce, 1963.
- Waldby, H. O. Recent Trends in State Supervision of General Property Assessments. Norman: Bureau of Government Research, University of Oklahoma, 1951.

APPENDIX

APPENDIX, TABLE I

TAX RECEIPTS AS A PERCENTAGE OF NET NATIONAL PRODUCT
CALENDAR YEARS 1929-1965

Year	Total	Federal	State and Local
1929	10.8	3.9	6.9
1930	11.8	3.6	8.2
1931	12.6	2.9	9.6
1932	15.8	3.2	12.5
1933	17.6	5.4	12.2
1934	16.6	6.0	10.6
1935	16.2	6.0	10.2
1936	16.1	6.6	9.5
1937	17.5	8.4	9.1
1938	18.3	8.3	10.0
1939	17.5	8.0	9.5
1940	18.3	9.3	9.0
1941	20.7	13.2	7.5
1942	21.4	15.4	6.0
1943	26.6	21.5	5.0
1944	25.1	20.4	4.7
1945	25.9	21.0	4.9
1946	25.1	19.6	5.5
1947	25.4	19.6	5.8
1948	23.7	17.7	5.9
1949	22.7	16.1	6.6
1950	25.2	18.6	6.5
1951	27.0	20.8	6.3
1952	27.3	20.8	6.5
1953	27.3	20.6	6.7
1954	25.9	18.9	7.1
1955	26.7	19.6	7.1
1956	27.6	20.1	7.5
1957	27.9	20.1	7.7
1958	27.3	19.2	8.1
1959	28.4	20.2	8.1
1960	29.6	20.9	8.7
1961	29.6	20.6	9.0
1962	29.8	20.8	9.1
1963	30.4	21.2	9.2
1964	29.2	19.8	9.3
1965	29.3	19.9	9.4

Source: Department of Commerce, Office of Business Economics.

APPENDIX, TABLE II

PER CAPITA EXPENDITURES FOR SELECTED STATE AND LOCAL
FUNCTIONS ACTUAL AND PROJECTED, UNITED STATES
FISCAL YEARS 1955-1975

Function	<u>Amount</u>		Projected 1975	<u>Percent change</u>	
	<u>Actual</u> 1955	<u>1965</u>		1955- 1965	1965- 1975
Total, general expenditures	\$205	\$387	\$655	+ 89	+ 69
Education	72	150	244	+108	+ 63
Highways	39	63	76	+ 62	+ 21
Public welfare	20	33	79	+ 65	+139
Health and Hospitals	15	28	49	+ 87	+ 75
Sanitation and sewerage	7	12	20	+ 71	+ 67
Police and fire	12	20	33	+ 67	+ 65
Housing and urban renewal	3	6	12	+100	+100
General control	9	14	22	+ 56	+ 57
Interest on debt	5	13	24	+160	+ 85
Other general	23	48	100	+ 50	+108

Source: Actual data from United States Department of Commerce,
Bureau of the Census. Computations and projections by Tax Foundation.

APPENDIX, TABLE III

DIRECT GENERAL EXPENDITURES OF STATE AND LOCAL GOVERNMENTS
FOR INSTITUTIONS OF HIGHER EDUCATION, UNITED STATES
TOTAL AND SELECTED STATES, 1965-66

State	Expenditure Amount (\$ million)	Enrollment (number)	Expenditure per Student	Percent state Appropriated
United States Total	7,207	3,609,503	\$1,997	42.4
Arkansas	59	31,000	1,903	48.7
Colorado	136	60,036	2,265	32.4
Kansas	108	66,982	1,612	45.0
Missouri	140	83,364	1,679	44.4
New Mexico	76	27,813	2,733	28.5
Oklahoma	120	69,296	1,732	34.9
Texas	349	221,880	1,573	47.3

Source (Expenditures): Governmental Finance - G. F. 13, United States Department of Commerce, Washington, D. C.

Source (Enrollment): Digest of Education (1966 edition) United States Department of Health, Education and Welfare, Office of Education.

Source (State Appropriated): Computed from data in Table XXIII.

APPENDIX, TABLE IV
TAX COLLECTIONS FROM PRINCIPAL SOURCES
FROM 1954 TO 1966, OKLAHOMA

Fiscal Year	Gasoline	Gross Production	Franchise	Inheritance and Estate
1954-55	\$46,742,282	\$28,632,632	\$3,355,943	\$ 2,750,296
1955-56	50,137,283	31,724,334	2,447,917	3,482,164
1956-57	50,984,952	33,605,462	2,645,872	3,566,508
1957-58	54,846,237	33,716,040	2,890,596	4,562,416
1958-59	53,814,166	33,349,639	2,982,652	4,621,476
1959-60	55,680,791	32,400,303	3,154,778	5,752,256
1960-61	56,824,241	33,374,253	3,322,831	6,538,389
1961-62	59,142,246	33,856,312	3,447,141	6,723,867
1962-63	61,537,995	34,998,939	3,665,486	6,496,388
1963-64	63,307,715	37,286,837	3,864,847	8,935,997
1964-65	65,839,607	37,794,416	4,125,685	8,815,449
1965-66	69,133,068	39,213,525	4,477,839	11,391,331
Percent increase 1954-62	30	10	51	122
Percent increase 1962-66	17	16	30	69

APPENDIX, TABLE IV (Continued)

Fiscal Year	Income and Withholding	Motor Vehicle License	Sales	Motor Vehicle Excise
1954-55	\$19,005,567	\$26,684,292	\$44,415,570	\$ 6,290,795
1955-56	21,921,723	29,514,791	46,978,154	6,961,910
1956-57	23,020,642	30,349,430	47,393,565	6,365,154
1957-58	24,337,935	31,314,954	48,273,282	6,437,638
1958-59	26,241,300	32,928,792	52,321,440	6,745,963
1959-60	28,945,488	35,009,409	53,641,921	7,227,779
1960-61	32,559,078	36,005,107	55,131,119	7,040,845
1961-62	43,696,849	37,661,224	57,343,766	8,175,111
1962-63	47,161,430	39,701,975	60,078,110	9,552,417
1963-64	47,448,612	42,282,663	63,545,356	10,489,339
1964-65	46,690,585	44,440,643	66,181,222	11,277,445
1965-66	57,570,286	47,524,875	74,081,624	12,840,643
Percent increase 1954-62	153	53	38	50
Percent increase 1962-66	31.7	26	29	57

APPENDIX, TABLE IV (Continued)

Fiscal Year	Cigarette	Tobacco	Beverage	Alcoholic Beverage Tax
1954-55	\$ 9,842,420	\$1,109,454	\$6,334,885	----
1955-56	10,266,960	1,049,392	6,330,542	----
1956-57	10,590,546	1,007,306	6,194,571	----
1957-58	11,082,468	1,142,619	6,180,971	----
1958-59	11,878,964	1,270,957	6,768,035	----
1959-60	12,570,426	1,361,485	6,444,969	\$8,252,366
1960-61	13,570,085	1,416,094	6,343,215	5,408,240
1961-62	18,386,046	2,097,117	6,392,178	5,942,611
1962-63	18,917,294	2,014,209	6,626,189	6,172,589
1963-64	18,904,552	2,344,124	7,038,090	6,375,723
1964-65	19,434,870	2,365,968	6,993,998	7,241,211
1965-66	22,538,893	2,248,893	7,280,238	6,865,260
Percent increase 1954-62	85	86	4	
Percent increase 1962-66	23	7	14	15

Source: Seventeenth Biennial Report, Oklahoma Tax Commission, Oklahoma City, Oklahoma, p. 8. Percentages computed by author.

APPENDIX, TABLE V
SELECTED ITEMS FOR COMPARISON OF OKLAHOMA
WITH OTHER STATES, 1962

Item	United States	Oklahoma	Ranking of Oklahoma
REVENUE OF STATE AND LOCAL GOVERNMENTS, FISCAL YEAR 1962			
Total Revenue (millions of dollars)	69,492	829	26
Tax Revenue (millions of dollars)	41,554	458	27
Per Capita General Revenue (dollars) from			
All Sources	313.48	307.55	29
Federal Government	42.36	66.16	12
State and Local Government Sources	271.13	241.39	35
Taxes	223.62	187.15	40
Property taxes	102.54	58.38	36
Nonproperty taxes	121.08	128.77	14
Charges and miscellaneous Sources	47.50	54.24	18
General Revenue per \$1,000 of personal income from			
All Sources	\$132.47	\$161.42	10
Federal Government	17.90	34.73	10
State and Local Government Sources	114.57	126.70	16
Taxes	94.49	98.23	22
Property Taxes	43.33	30.64	34
Nonproperty Taxes	51.16	67.59	7
Charges and miscellaneous Sources	20.07	28.47	8

Source: 1962 Census of Governments, United States Department of Commerce.

APPENDIX, TABLE VI
 SELECTED ITEMS FOR COMPARISON OF OKLAHOMA
 WITH OTHER STATES

Item	United States	Oklahoma	Ranking of Oklahoma
AREA, POPULATION, AND INCOME			
Land area (square miles)	3,548,974	68,887	19
Population, 1962 (in thousands)	185,822	2,448	26.5
Population density, 1962 (Persons per square mile of land area)	52.4	35.5	35
Personal income, 1962 (millions of dollars)	439,661	4,664	27
Per capita personal income, 1962 (dollars)	2,336	1,905	39
LOCAL GOVERNMENTS AND PUBLIC SCHOOLS, 1962			
Number of local governments	91,186	1,959	17
Local governments per 100,000 inhabitants	49.1	80	15
Number of county areas	3,124	77	17
Local governments per county area	29.2	25.4	26
Number of public school systems	37,019	1,225	14
Number of public schools	100,339	2,126	23
Public School Enrollment, October, 1961 (in thousands)	37,806	540	27
INDEBTEDNESS OF STATE AND LOCAL GOVERNMENTS AT END OF FISCAL YEAR 1962			
Total debt (millions of dollars)	81,278	886	25
Per capita debt (dollars)	437.40	361.95	27
Long-term	417.30	361.23	24
Full faith and credit	260.04	205.23	27
Nonguaranteed	157.26	156.00	18

Source: 1962 Census of Governments, United States Department of Commerce.

APPENDIX, TABLE VII
SELECTED ITEMS FOR COMPARISON OF OKLAHOMA
WITH OTHER STATES

Item	United States	Oklahoma	Ranking of Oklahoma
EXPENDITURE OF STATE AND LOCAL GOVERNMENTS, FISCAL YEAR 1962			
Total Expenditure (millions of dollars)	70,547	821	27
General Expenditure (millions of dollars)	60,206	732	26
Per Capita General Expenditure (dollars) for			
All Functions	324.00	298.91	32
Education	119.56	107.96	30
Local Schools Only	95.46	79.55	38
Highways	55.74	55.23	29
Public Welfare	27.36	58.11	1
Health and Hospitals	23.37	15.92	40
General Expenditure Per \$1,000 of personal income for			
All Functions	\$136.91	\$156.89	17
Education	50.52	56.66	23
Local Schools Only	40.34	41.75	27
Highways	23.55	28.99	28
Public Welfare	11.56	30.50	2
Health and Hospitals	9.87	8.35	32

Source: 1962 Census of Governments, United States Department of Commerce.

APPENDIX, TABLE VIII

PUBLIC WELFARE EXPENDITURES
OKLAHOMA 1964-65

ADMINISTRATIVE:

Employment Security Commission	\$ 6,088,763.13
Charities and Corrections	44,695.76
Governor's Committee on the Employment of the Handicapped	21,770.93
Human Rights Commission	14,383.07
Retirement System State Employees	211,298.13
Veterans Department	560,987.34
Vocational Rehabilitation	<u>832,280.45</u>
 TOTAL ADMINISTRATIVE	 \$ 7,774,178.81

COMMISSION - PUBLIC WELFARE:

Administration Fund	\$ 9,994,580.53
Crippled Children's Commission	2,623,702.65
Disability Freeze, B.O.A.S.I.	400,755.18
Commodity Distribution	526,549.39
Child Welfare	1,860,470.82
Vocational Rehabilitation	400,000.00
Training School Repair Fund	218,898.95
Taft State Children's Home	391,140.06
Whitaker State Children's Home	592,709.92
Girls Town	340,192.59
Helena State School for Boys	456,430.00
Boley State School for Boys	227,027.67
Taft State School for Girls	107,720.55
Enid State School	2,400,147.76
Pauls Valley State School	1,692,320.98
Hissom Memorial Center	2,258,400.76
Work Experience Program	5,228.06
Mentally Retarded School Repair Fund	<u>6,334.96</u>
 TOTAL COMMISSION - PUBLIC WELFARE:	 \$24,502,610.83

PUBLIC ASSISTANCE:

Oklahoma Emergency and General Assistance Fund	\$ 267,780.00
Aid to Dependent Children	27,394,970.66
Aid to Dependent Children - Medical Pooled Fund	1,554,009.48
Combined Adult Category	92,960,866.00
Medical Assistance for the Aged	1,984,762.76
Combined Adult Category - Medical Pooled Fund	22,774,470.80
Cuban Refugees	12,155.86
Oklahoma Employees Retirement - Members Reserve	<u>39,503.86</u>

APPENDIX, TABLE VIII (Continued)

Oklahoma Employees Retirement - Payment Reserve	\$ 97,912.83
Oklahoma Employees Retirement - Accumulation Reserve	1,891.93
Oklahoma Employees Retirement - Investment Reserve	7,930,230.39
Training Allowance Payments	648,999.00
Subsistence Allowance Payments	257,877.00
Transportation Allowance Payments	39,192.71
Retraining Subsistence	82,535.00
Unemployment Benefits	14,626,592.38
Veterans Compensation	1,629,145.10
Federal Employee Compensation	<u>626.00</u>
TOTAL PUBLIC ASSISTANCE	\$172,303,521.76
INSTITUTIONS:	
Cerebral Palsy Institute	\$ 213,152.66
Veterans Home	353,334.46
Veterans Hospital	<u>592,047.19</u>
TOTAL INSTITUTIONS	\$ 1,158,534.31
TOTAL PUBLIC WELFARE	<u>\$205,738,845.71</u>

Source: State of Oklahoma, Executive Department, Division of the Budget, Schedule III, 1965.

APPENDIX, TABLE IX

TOTAL AND PER CAPITA PERSONAL INCOME UNITED STATES
AND SELECTED STATES 1959-66

	1959	1960	1961	1962	1963	1964	1965	1966	% of U.S. 1966	% In- crease 1959-66
(Total -- Mil. \$ ---- Per Capita -- \$)										
U. S. Tot.	380,963	398,725	414,411	440,192	463,053	493,408	522,147	575,895		51.2
Per Capita	2,161	2,215	2,264	2,368	2,455	2,579	2,746	2,940	100	
Mo. Tot.	8,945	9,149	9,418	9,892	10,402	10,988	11,961	12,824		43.4
Per Capita	2,101	2,115	2,166	2,269	2,358	2,458	2,663	2,845	97	
Kansas Tot.	4,483	4,712	4,941	5,177	5,319	5,565	5,932	6,331		41.2
Per Capita	2,075	2,161	2,251	2,343	2,398	2,488	2,639	2,814	96	
Arkansas Tot.	2,418	2,459	2,701	2,898	3,103	3,374	3,581	3,938		62.9
Per Capita	1,377	1,372	1,487	1,546	1,627	1,740	1,845	2,015	69	
Okla. Tot.	4,131	4,350	4,551	4,688	4,880	5,196	5,603	6,038		46.2
Per Capita	1,805	1,861	1,910	1,925	1,992	2,111	2,289	2,456	84	
Texas Tot.	17,995	18,535	19,551	20,518	21,589	22,966	24,761	27,003		50.1
Per Capita	1,913	1,925	1,984	2,026	2,105	2,208	2,338	2,511	85	
New Mex. Tot.	1,762	1,801	1,873	1,970	2,032	2,107	2,224	2,361		34.0
Per Capita	1,917	1,890	1,951	2,014	2,053	2,090	2,193	2,310	79	
Colo. Tot.	3,755	4,022	4,299	4,566	4,750	4,967	5,282	5,678		51.2
Per Capita	2,196	2,275	2,343	2,425	2,483	2,559	2,710	2,872	98	

Source: Survey of Current Business, United States Department of Commerce, April, 1967, Vol. 47, Number 4, pp. 14-15.

APPENDIX, TABLE X
RETURNS PER SALES TAX DOLLAR
BY COUNTIES - 1965-1966

Counties	Sales Tax Collections	Returns per Sales Tax Dollar	Counties	Sales Tax Collections	Returns per Sales Tax Dollar
	(\$000)	(\$)		(\$000)	(\$)
Adair	151,429	20.06	LeFlore	426,838	12.92
Alfalfa	177,040	2.60	Lincoln	312,425	6.79
Atoka	160,154	13.94	Logan	343,016	6.16
Beaver	100,690	1.87	Love	77,323	10.75
Beckham	455,384	4.80	McClain	195,775	7.53
Blaine	276,960	3.90	McCurtain	379,418	14.89
Bryan	482,101	8.83	McIntosh	218,468	11.78
Caddo	554,301	6.41	Major	192,151	1.81
Canadian	569,663	2.43	Marshall	142,300	8.69
Carter	1,132,312	3.76	Mayes	410,441	6.96
Cherokee	302,989	9.33	Murray	195,000	9.68
Choctaw	233,024	17.37	Muskogee	1,434,461	5.23
Cimarron	114,482	1.04	Noble	230,529	3.48
Cleveland	1,274,261	1.66	Nowata	144,788	7.82
Coal	64,439	16.66	Okfuskee	142,240	14.37
Comanche	1,835,150	1.67	Oklahoma	19,479,271	1.18
Cotton	124,275	5.82	Okmulgee	715,439	7.07
Craig	294,753	5.60	Osage	436,949	4.78
Creek	849,406	5.02	Ottawa	676,239	4.08
Custer	675,383	2.20	Pawnee	196,521	5.51
Delaware	162,993	17.72	Payne	578,953	2.09
Dewey	118,534	3.78	Pittsburg	740,462	6.27
Ellis	106,184	2.82	Pontotoc	756,838	4.32
Garfield	2,040,825	1.18	Pott.	1,018,800	4.30
Garvin	716,122	4.50	Pushmataha	120,600	15.27
Grady	665,208	4.73	Roger Mills	55,333	8.82
Grant	159,101	1.56	Rogers	393,156	5.98
Greer	177,233	6.90	Seminole	623,842	6.25
Harmon	105,141	7.37	Sequoyah	260,410	14.55
Harper	115,141	2.42	Stephens	1,042,844	3.18
Haskell	132,101	14.29	Texas	414,397	0.99
Hughes	227,434	11.44	Tillman	260,006	5.81
Jackson	609,733	3.42	Tulsa	15,477,074	1.10
Jefferson	105,504	12.88	Wagoner	204,896	11.22
Johnston	92,169	18.53	Washington	1,368,551	1.06
Kay	1,404,318	1.78	Washita	230,987	3.28
Kingisher	411,223	1.14	Woods	336,282	1.86
Kiowa	299,773	5.15	Woodward	482,924	1.44
Latimer	121,874	11.59	TOTAL	\$71,998,672	\$ 2.80

Source: Oklahoma Department of Public Welfare, Annual Report 1966.

APPENDIX, TABLE XI
ASSESSMENT RATIOS BY COUNTIES
OKLAHOMA 1961

County	Urban Property		Rural Property		Total Property	
	Number of Sales	Ratio	Number of Sales	Ratio	Number of Sales	Ratio
Adair	25	22.72	75	22.16	100	22.31
Alfalfa	41	20.81	21	18.41	62	19.09
Atoka	29	20.36	74	18.81	103	19.27
Beaver	46	20.67	20	13.79	66	16.62
Beckham	144	19.69	53	19.15	197	19.54
Blaine	92	20.24	47	20.70	139	20.46
Bryan	67	18.13	75	18.95	142	18.54
Caddo	197	18.52	118	20.43	315	19.47
Canadian	179	16.17	48	18.51	227	17.05
Carter	215	21.71	83	19.97	298	21.34
Cherokee	58	22.58	137	19.91	195	20.91
Choctaw	30	19.78	53	18.78	83	19.04
Cimarron	43	12.06	25	14.12	68	16.73
Cleveland	621	20.25	84	18.88	706	20.13
Coal	21	28.53	44	20.38	65	22.51
Comanche	287	17.90	27	18.15	314	17.91
Cotton	35	15.25	31	14.86	66	14.96
Craig	104	20.38	93	20.31	196	20.34
Creek	183	22.23	58	20.36	241	21.91
Custer	128	17.16	25	12.91	153	15.87
Delaware	33	19.64	112	21.19	145	20.79
Dewey	39	19.49	32	20.10	71	19.86
Ellis	37	23.66	23	21.46	60	22.42
Garfield	470	20.48	69	18.02	539	19.91
Garvin	186	20.47	86	18.47	272	19.86
Grady	190	22.64	83	19.26	273	21.37
Grant	31	22.03	16	17.38	47	18.49
Greer	42	17.03	20	19.92	62	18.19
Harmon	58	22.66	25	15.43	83	18.88
Harper	27	16.80	19	13.79	46	15.32
Haskell	36	26.27	27	17.89	63	22.09
Hughes	77	20.38	77	24.11	154	22.01
Jackson	183	17.61	38	17.84	221	17.66
Jefferson	53	22.62	35	18.59	88	20.21
Johnston	49	17.08	57	15.27	106	15.78
Kay	410	17.15	43	15.13	453	16.81
Kingfisher	55	24.52	36	18.50	91	20.45
Kiowa	128	19.50	47	15.77	175	17.64
Latimer	36	25.59	42	18.93	78	22.07
LeFlore	112	18.69	92	16.66	204	17.68
Lincoln	78	20.97	58	19.97	136	10.52
Logan	147	20.98	85	19.29	232	20.23

APPENDIX, TABLE XI (Continued)

County	Urban Property		Rural Property		Total Property	
	Number of Sales	Ratio	Number of Sales	Ratio	Number of Sales	Ratio
Love	15	17.82	24	15.69	39	16.36
McClain	78	19.92	74	20.96	152	20.53
McCurtain	27	18.13	57	17.48	84	17.65
McIntosh	45	19.07	56	18.57	101	18.82
Major	39	24.07	37	17.59	76	19.95
Marshall	25	18.91	21	16.38	46	17.39
Mayes	113	17.09	78	15.79	191	16.58
Murray	77	21.44	30	18.86	107	20.50
Muskogee	491	23.86	76	20.46	567	23.42
Noble	83	21.20	52	23.29	135	22.26
Nowata	64	26.02	49	21.61	113	24.04
Okfuskee	26	21.04	49	22.01	75	21.68
Oklahoma	1,071	21.38	13	26.04	1,084	21.43
Okmulgee	116	23.19	38	22.36	154	22.99
Osage	93	23.89	18	17.73	111	21.99
Ottawa	175	21.78	56	22.45	231	21.93
Pawnee	60	20.61	35	19.15	95	20.01
Payne	193	21.14	33	20.53	226	21.07
Pittsburg	241	21.71	86	19.36	327	21.09
Pontotoc	206	19.95	96	19.47	302	19.81
Pottawatomie	233	17.92	69	18.60	302	18.04
Pushmataha	13	32.94	40	19.88	53	21.99
Roger Mills	19	15.32	26	19.79	45	18.90
Rogers	117	24.21	82	19.75	199	21.82
Seminole	169	18.82	87	19.67	256	19.09
Sequoyah	44	16.91	49	17.22	93	17.04
Stephens	170	20.06	52	21.04	222	20.23
Texas	104	20.20	13	14.64	117	19.17
Tillman	83	19.73	16	15.59	99	18.43
Tulsa	1,157	25.66	38	21.65	1,195	25.56
Wagoner	191	23.45	53	19.48	244	22.29
Washington	249	23.12	25	18.67	274	22.82
Washita	40	16.13	42	15.71	82	15.83
Woods	92	18.81	16	13.01	108	16.88
Woodward	132	21.18	22	17.17	154	20.36
Grand Total	11,073	21.42	3,922	18.62	14,995	20.72

Source: Oklahoma Tax Commission Survey.

APPENDIX, TABLE XII

1966 AVERAGE OF THE OKLAHOMA ASSESSMENT-SALES RATIO STUDY
ARITHMETIC MEAN COMPUTATION

County	Urban Property		Rural Property		Total Property	
	Number of Sales	Ratio	Number of Sales	Ratio	Number of Sales	Ratio
Adair	15	20.67	28	26.20	43	24.27
Alfalfa	43	24.46	13	11.35	56	21.42
Atoka	15	15.49	35	11.43	50	12.65
Beaver	11	31.83	18	10.70	29	18.72
Beckham	64	22.11	27	12.60	91	19.29
Blaine	55	20.69	21	11.48	76	18.14
Bryan	52	17.31	27	14.81	79	16.46
Caddo	117	19.37	59	15.55	176	18.09
Canadian	167	18.78	28	13.24	195	17.99
Carter	99	22.96	27	16.39	126	21.55
Cherokee	39	20.24	24	14.28	63	17.97
Choctaw	28	18.85	31	10.40	59	14.41
Cimarron	9	21.32	17	13.85	26	16.44
Cleveland	611	23.35	33	11.14	644	22.72
Coal	15	22.30	13	14.25	28	18.57
Comanche	381	18.12	18	16.02	399	18.02
Cotton	30	18.38	8	12.61	38	17.17
Craig	33	18.37	28	14.36	61	16.53
Creek	158	22.37	37	15.74	195	21.11
Custer	90	18.05	15	11.87	105	17.16
Delaware	33	16.22	36	14.73	69	15.44
Dewey	13	23.42	11	16.32	24	20.17
Ellis	22	17.00	17	12.72	39	15.13
Garfield	451	17.65	16	11.55	467	17.44
Garvin	104	23.19	50	15.12	154	20.57
Grady	103	23.38	41	14.36	144	20.81
Grant	14	26.42	24	12.26	38	17.48
Greer	35	22.74	22	14.47	57	19.55
Harmon	14	18.65	18	15.69	32	16.99
Harper	31	20.49	12	13.89	43	18.65
Haskell	18	24.64	18	17.66	36	21.15
Hughes	38	23.15	34	16.20	72	19.87
Jackson	94	16.90	19	10.10	113	15.76
Jefferson	22	24.90	19	15.62	41	20.60
Johnston	20	20.16	21	19.01	41	19.57
Kay	226	20.73	29	14.15	255	19.98
Kingfisher	70	23.36	34	13.21	104	20.04
Kiowa	36	20.77	18	12.80	54	18.11
Latimer	12	20.73	25	15.04	37	16.89
LeFlore	44	13.96	21	11.38	65	13.13
Lincoln	66	16.88	63	11.15	129	14.08
Logan	45	18.90	31	12.26	76	16.19

APPENDIX, TABLE XII (Continued)

County	Urban Property		Rural Property		Total Property	
	Number of Sales	Ratio	Number of Sales	Ratio	Number of Sales	Ratio
Love	18	22.94	18	16.23	36	19.59
McClain	66	17.83	33	12.14	99	15.93
McCurtain	7	25.08	23	12.93	30	15.76
McIntosh	19	15.41	18	11.61	37	13.56
Major	33	21.30	19	14.85	52	18.95
Marshall	26	18.09	9	19.88	35	18.55
Mayes	76	16.44	28	10.50	104	14.84
Murray	35	22.07	16	19.40	51	21.23
Muskogee	169	23.02	36	19.09	205	22.33
Noble	50	19.20	28	14.46	78	17.50
Nowata	22	25.29	47	17.18	69	19.76
Okfuskee	21	21.10	23	15.84	44	18.35
Oklahoma	1,173	22.39	21	13.78	1,194	22.24
Okmulgee	129	21.91	36	19.13	165	21.30
Osage	70	23.42	18	13.40	88	21.37
Ottawa	102	22.38	34	17.61	136	21.18
Pawnee	43	16.69	28	13.00	71	15.24
Payne	146	20.09	37	11.80	183	18.42
Pittsburg	124	15.51	17	9.79	141	14.82
Pontotoc	79	20.26	35	17.94	114	19.54
Pottawatomie	110	16.71	36	17.67	146	16.95
Pushmataha	3	20.03	11	21.12	14	20.88
Roger Mills	11	17.38	18	13.45	29	14.94
Rogers	88	20.20	40	14.54	128	18.43
Seminole	63	17.62	39	13.57	102	16.07
Sequoyah	33	22.49	15	17.29	48	20.87
Stephens	130	21.10	30	13.63	160	19.70
Texas	47	21.07	31	10.64	78	16.93
Tillman	37	22.37	23	11.99	60	18.39
Tulsa	1,050	28.32	30	23.27	1,080	28.18
Wagoner	50	21.93	35	12.29	85	17.96
Washington	235	22.85	20	15.59	255	22.28
Washita	44	16.62	29	11.73	73	14.68
Woods	69	20.72	15	13.31	84	19.39
Woodward	84	22.01	14	11.14	98	20.46
STATE OF OKLA.	8,005	21.74	1,996	14.44	10,001	20.28

Source: Oklahoma Tax Commission Survey.

VITA

Houston Everett Ward

Candidate for the Degree of
Doctor of Philosophy

Thesis: FINANCING PUBLIC FACILITIES AND SERVICES IN OKLAHOMA

Major Field: Agricultural Economics

Biographical:

Personal Data: Born in Red River County, Texas, May 20, 1912, the son of Delbert C. and Jewel A. Ward.

Education: Graduated from Idabel High School, Idabel, Oklahoma, May, 1931; received the Bachelor of Science Degree in Agricultural Administration from Oklahoma State University in May 1935; received the Master of Science Degree in Agricultural Economics from Oklahoma State University in August 1959; studied at North Carolina State University as a Kellogg Fellow 1963-64; completed requirements for the Doctor of Philosophy Degree in May 1968.

Professional Experience: Junior Analyst, Bureau Agricultural Economics, July - September 1935; County Administrative Assistant in Agricultural Adjustment, October 1935 to August 1938; County Agricultural Agent, Oklahoma State University Extension Service, September 1938 to August 1956; since that time has served as Extension Economist, Outlook and Policy, Oklahoma State University.