STATE AID TO LOCAL GOVERNMENTS IN OKLAHOMA: AN ECONOMIC EVALUATION OF AGGREGATE STATE AID, SHARED TAXES, AND GRANTS-IN-AID WITHIN THE FRAMEWORK OF SELECTED CRITERIA

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PREFACE

Each year the State of Oklahoma disburses a large amount of revenue to local governments in the form of state aid. Even though state aid is of such importance, an economic study of this program has not been made. This thesis is an attempt, upon the part of the author, to provide the needed economic evaluation of state aid.

A complete study of the state aid program would require the combined efforts of scholars from the fields of economics, political science, and education. Therefore, it would be presumptuous on my part to claim that this study represents all that needs to be done in this important area of state and local finance. I hope the present study will stimulate others to supplement this work.

I owe a debt of gratitude to Dr. John D. Garwood, Professor of Economics at Fort Hays Kansas State College, who directed me toward graduate work in economics. Without Dr. Garwood's encouragement, I would not have gone beyond my undergraduate training.

I am indebted to Dr. Ansel M. Sharp, who directed this thesis. Without his assistance, the present study would not have been possible.

I am also indebted to the other members of my committee: Drs. Joseph Klos, Julian Bradsher, and Ora A. Hilton.

A special acknowledgment is due my wife, Loretta, and my three daughters, Karen, Bridgit, and Barbara. I thank them for their willingness to sacrifice so much and for being patient with me throughout the years of graduate work.

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CHAPTER I

INTRODUCTION

The importance of an economic analysis of state aid to local governments in Oklahoma arises because of the large amount of money involved. The state disbursed $457,316,000 in fiscal 1960. In the same year state aid amounted to $115,860,000.[1] In other words, of the total expenditure by the state, in fiscal 1960, approximately 25 percent was allocated to state aid for local governments.

State aid has increased from $22,242,000 in 1941 to $115,861,000 in 1960. This represents a 421 percent increase in aid in less than twenty years. However, if allowance is made for price level changes state aid in constant dollars (1947-49 = 100) was $35,305,000 in 1941 and $91,229,000 in 1960. This represents an increase in aid, stated in dollars of constant purchasing power, of 158 percent.

Even though state aid in Oklahoma is of such magnitude, there has been no economic analysis made of the program. This study is an attempt to undertake the needed analysis.

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[1] U.S. Department of Commerce, Bureau of The Census, Compendium of State Government Finances in 1960. (Washington: U.S. Government Printing Office), p. 23.

The Hypothesis

State control over local finances is appreciable. The tax and debt limitations placed upon local governments limit their ability to finance an acceptable level of services.[2] In order to solve this problem, one or more of three courses of action can be taken. The decision may be made that if local governments cannot provide certain services they should be financed and administered by the state. Secondly, it may be decided that (n) units of local government should be consolidated so that fewer units can provide the desired quantity of public services. Lastly, the state may extend financial aid to local governments. Since state aid is of such magnitude in Oklahoma it is assumed, for the purpose of the present study, that aid is a desirable alternative to the assumption of local services by the state and/or consolidation of local units of government. Even though reorganization of governmental units may be desirable for economic reasons, it is doubtful such reorganization is forthcoming in the near future. Therefore, in the meantime, economists must work within the present governmental framework.

The hypothesis of this study is that several criteria should be satisfied if an efficient state aid program is to be established. These criteria are: (1) state aid should be granted to local governments on the basis of need; (2) state aid should promote equalization of tax effort and services within the state; (3) state aid should not favor

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[2]See Appendix A which discusses tax and debt limitations placed upon local units of government by the state.

one segment of the population vis-a-vis another segment if both are in equal circumstances; (4) state aid should promote neither fiscal irresponsibility nor inefficient levels of government.

State aid should be granted to local governments on the basis of need:

The dictionary defines the verb aid as"to help, to further."[3] If the state extends aid to local governments it should be because the latter is in need of assistance.

In Oklahoma, as in other states, there is a feeling that a given quantity and quality of particular public services are necessary for the entire state. At the same time, not all of Oklahoma is endowed with the same quantity and quality of resources, human and non-human. Therefore, if an accepted minimum level of these services is to be maintained throughout the state, local governments less able to provide the accepted minimum will have to receive more aid than local units with greater ability.

State aid should promote equalization of tax effort and services within the state:

The second criterion is merely an extension of the first. The criterion of need implies both equalization of tax and service effort should be promoted. Without state aid an economically poor local government would have to exert more tax effort to provide a given level of services than its more wealthy neighbors.

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[3] Webster's New Collegiate Dictionary, second edition, (Springfield, Mass., 1951), p. 18.

Let us assume that an individual living in Oklahoma is subject to dealings with two fiscal systems: state and local.[4] Since there are two fiscal systems, fiscal inequalities will be present among subordinate units unless fiscal capacities are equal.[5] Fiscal capacities are not likely to be equivalent among local units of government because of the location of economic resources. Therefore, there is apt to be a difference in the number and standard of public services provided and the taxes levied on the owners of economic resources within the various subordinate units of government. Since there are differences in the fiscal ability of local units, intergovernmental transfers may be justified in order to place them in a position of equal fiscal capacity.

If there are two levels of government, each having power to tax, the principle of equity becomes difficult to apply.[6] The assertion

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[4]The inclusion of the federal government is not necessary because we are not concerned with equalization of tax and service efforts among the states. We are looking upon Oklahoma as a closed economy which has no dealings with the federal government.

[5]James M. Buchanan, "Federalism and Fiscal Equity," American Economic Review, XL (1950), p. 583. Even though Buchanan applies his analysis to the federal system the method he uses is applicable to Oklahoma because there are two separate fiscal systems within the state. It is true that the state has the power to assume the performance of services which are now locally controlled but this is not likely to happen. It is also true that the state may assign the same taxing authority to local governments that it possesses but in the past, with few minor exceptions, local governments have been restricted to the use of the property tax.

[6]Richard A. Musgrave, The Theory of Public Finance (New York, 1959), p. 60.

can be made that the equity principle is not violated as long as the control unit treats individuals in equal circumstances equally and each of the local units does the same. If this viewpoint is adhered to then interdistrict transfers are unnecessary to assure tax equity. Buchanan questions this principle of equity.

> The orthodox answer /to the question concerning equal treatment of equals/ has been almost wholly in reference to the tax side alone, the implication being that if tax burdens of similarly situated individuals were identical, the equity criterion would be satisfied...The object of comparison should be aggregate fiscal pressure upon the individual or family, not tax treatment alone.[7]

The individual pays taxes and in return receives public services. Therefore, both sides of the fiscal account must be considered before the problem of equity can be properly discussed. If the individual's tax is greater than the value of benefits received from government services, there is a positive residuum or the individual pays a net tax.[8] On the other hand if the individual's tax is less than the value of benefits from government services there is a negative residuum or the individual receives a net benefit.[9] The fiscal structure is equitable only if the fiscal residua of people in like circumstances are

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[7]Buchanan, American Economic Review, XL, p. 588.

[8]James M. Buchanan, "The Pure Theory of Government Finance," Journal of Political Economy, LVII (1949), p. 501.

[9]Ibid.

equivalent.[10] Intergovernmental transfer of tax receipts is an attempt on the part of the state government to promote fiscal equity. One method of determining whether fiscal equity is being achieved is to examine the degree of equalization of tax effort and services within the state.

State aid should not favor one segment of the economy vis-a-vis another segment if both are in equal circumstances:

The most widely accepted principle of equity is that people who are in equal circumstances should be treated equally.[11] If the principle of equal treatment of equals is not followed in the Oklahoma state aid program optimum allocation of resources will be distorted. For example, if small inefficient school districts are favored over larger more efficient school districts the former will be maintained at the expense of a more efficient allocation of resources.

State aid should neither promote fiscal irresponsibility nor inefficient levels of government:

State aid should not promote fiscal irresponsibility on the part of local governments if the aid program is to help attain some degree of equalization. For example, equalization is not accomplished when local governments utilize aid given them in order to reduce their contribution.

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[10]Buchanan, American Economic Review, XL, p. 588.

[11]Musgrave, p. 160.

If taxpayers in more wealthy counties are required to contribute toward financing services in less wealthy counties, they are entitled to some assurance that their funds are used to increase the level of public services rather than decrease the recipient government's contribution. If state aid promotes fiscal irresponsibility upon the part of some recipient governments then the principle of equity that equals in like circumstances should be treated equally is violated.

It is possible that state aid will provide the necessary margin to keep inefficient levels of government functioning. The continuation of inefficient governments is contrary to an efficient allocation of resources. Therefore, it may be necessary for the state to stipulate certain conditions regarding efficiency before local units can qualify for aid.

Method

The study which follows examines state aid in Oklahoma within the framework of the criteria set out above. The method of investigation is empirical. Data are examined so as to determine, with some degree of certainty, whether or not state aid measures up to the chosen criteria. Per capita state aid received by the various counties is correlated with several measurements in order to examine to what extent the criteria have been satisfied. By using per capita state aid figures the differences in population between counties are accounted for.

With respect to the criterion that state aid should be distributed to local governments on the basis of need, it is necessary to formulate

a measurement of need for each county. Per capita state aid is then correlated with the measurement of need. If per capita state aid increases as the measurement of need increases, and the correlation is significant, it is assumed that state aid is allocated in accordance with the need criterion. If per capita state aid decreases as the measurement of need increases, and the correlation is significant, it is assumed that state aid is not allocated in accordance with the need criterion.

One of the means of determining whether state aid brings about equalization is to ascertain whether a larger share of aid is going to poor counties vis-a-vis wealthy counties. If per capita state aid increases as fiscal ability decreases, the aid program promotes equalization. However, if per capita state aid increases as fiscal ability increases, the aid program does not promote equalization. Another method of examining the equalization criterion is to determine the extent to which state aid promotes equalization of tax effort. Without aid poor counties will have to make a greater effort to provide a given level of services than their more wealthy neighbors. However, not all counties will make the same tax effort, even with state aid considered, because some will want to provide a quantity and/or quality of public services above the minimum program supported by the state and will have to put forth a greater tax effort to do so. State aid is given to local governments in Oklahoma for two types of services: education and highways. Therefore, it is necessary to determine whether state aid promotes equalization in highway and education services.

In order to test the hypothesis that state aid should not promote fiscal irresponsibility, per capita state aid is correlated with average property tax rates and assessment ratios for each county. If the local unit is going to be irresponsible as the result of state aid, it will reduce the property tax rate, the assessment ratio or a combination of both.

Most of the data examined in the following pages are for the year 1957. The Bureau of the Census published voluminous data concerning the financing of state and local governments for this year. Since the state aid program has not changed to any great extent since 1957 it is assumed that the time span of four years is not great enough to invalidate the conclusions of the following study.

Per capita figures for 1957 are computed by dividing 1957 data by 1960 population figures. The reason for using this method is that the only population estimates for 1957, which include the population of counties, come from sources of questionable reliability. For example, the Bureau of Business Research at the University of Oklahoma estimated population of Adair County as being 13,928 for 1957.[12] Sales Management magazine estimated population of the same county, for 1957, as being 12,200.[13] Such discrepancies are evident for each county within the state.

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[12]Bureau of Business Research, Oklahoma Business Bulletin, (Norman, 1957), Vol. XXIV, No. 8, p. 8.

[13]Sales Management, May 10, 1958, p. 606.

State aid is used in this study to refer to both grants-in-aid and shared taxes. In Oklahoma shared taxes are aid in every sense of the word. The state does not merely act as a collection agent for local governments. The local units of government receive portions of particular taxes based upon some criterion of need as determined by the state.

Limitations

This study does not attempt to define or discuss quality of public services. It may be concluded, in the following pages, that some equalization of education services has been brought about because of state aid. A statement such as this refers to quantitative not qualitative factors. It is not that qualitative factors are non-important, however, they are not within the scope of the present study.

There are times when historical data concerning state aid would improve the exposition. However, detailed historical data, concerning both state and all levels of local government, are not readily available.

An optimum level of state aid is not defined in the following pages. It is assumed the political process expresses the desires of the residents of the state and they have determined that the given level of state aid expenditures is the most desirable.

Plan of Presentation

In Chapter II aggregate state aid is examined as a prelude to analyzation of particular state aid programs. The reason for examining

the state aid program as a whole is to determine whether or not it measures up to the criteria outlined above. If it does not, an examination of particular aid programs is in order to ascertain whether one part of the aid program measures up to the accepted criteria more than the other.

Chapter III is devoted to shared taxes and grants-in-aid. Techniques developed in Chapter II, to test the hypothesis of this study, are used to examine shared taxes and grants-in-aid.

Chapter IV is devoted to a summary and to the conclusions derived from this study. Policy recommendations are also presented in Chapter IV.

CHAPTER II

THE AGGREGATE STATE AID PROGRAM IN OKLAHOMA

It is the purpose of this chapter to test the hypothesis that the state aid program, as a whole, does satisfy several criteria. An investigation of the Oklahoma state aid program, in its entirety, with respect to the accepted criteria will provide the needed background for an examination of particular state aid programs in subsequent chapters.

Aggregate state aid is examined in the present chapter in relation to the following criteria: (1) state aid should be granted to local governments on the basis of need; (2) state aid should promote equalization of tax effort and services within the state; (3) state aid should not favor one segment of the population vis-a-vis another if both are in equal circumstances; (4) state aid should promote neither fiscal irresponsibility nor inefficient levels of government.

It is assumed, in the present study, that state aid is granted local governments because they are in need of financial assistance. The amount of state aid required by local governments varies because they are not endowed with equal ability to finance public services. Therefore, the problem becomes one of determining a local government's need for state aid. Two measurements of need, population density and fiscal ability, are developed in the present chapter. Then, it is postulated

that a larger amount of aid per capita should go to more densely populated areas and counties with the least fiscal ability.

If state aid is to satisfy the second criterion some equalization of tax effort and public service expenditures is to be expected. In the present chapter each county's tax effort index is compared to the state average. The dispersion of the tax effort indices from the average indicates the extent to which equalization of tax effort is accomplished. Since state aid is given to local governments in Oklahoma for two services, education and highways, per capita education and highway expenditure indices for each county are compared with the average expenditure on these services for the state. The dispersion of the various education and highway expenditure indices from the average indicates the extent to which these two aided services are equalized throughout the state.

The population of the state is divided into two general classifications, urban and rural, in order to test the criterion that state aid should not favor one segment of the population vis-a-vis another, if both are in equal circumstances. The purpose of such an investigation is to examine the possibility that, because of a rurally dominated legislature, the state aid program favors rural counties over urban ones. If this is the case, then state aid is distributed on the basis of political rather than economic criteria.

Fiscal irresponsibility on the local level may be partially a result of the state aid program. If state aid promotes fiscal irresponsibility the second criterion above will be thwarted. If a county reduces local taxes as the result of receiving aid from the state, the other local units will have to increase their tax effort in order to support such

action. This will lead to less equalization of tax effort. State aid is often used as a means of increasing the quantity of a locally controlled service. If the local unit of government reduces its expenditure on the service as they receive aid, then the service will not be provided for to the extent intended by the state. The result is likely to be less rather than more equalization of public expenditures.

If a more optimum allocation of resources can be attained by consolidating smaller more inefficient units of government the state aid program should promote such consolidation, other things equal. If inefficient governments are encouraged because of the state aid program, an optimum allocation of resources will not be realized. The possibility that state aid promotes inefficient levels of government will be examined below.

State Aid and The Criterion of Need

It is the purpose of this section to test the criterion that state aid should be granted to local governments on the basis of need. The criterion of need is the basic reason that aid is granted by a central to a local unit of government. If each local unit of government were endowed with the same quantity and quality of resources, human and non-human, it would be unnecessary to make intergovernmental transfers from the central to the local unit of government. However, local governments are not so endowed; hence, intergovernmental transfers are necessary if specified public services are to be provided at an acceptable level.

The underlying problem in testing this criterion is that of determining what constitutes need on the part of local governments. This study uses two measurements of need, population density and fiscal ability.

Population as a measurement of need:

As a first approximation it is assumed that the larger the population of a particular area the greater its need for public services. As people move from the already sparsely populated rural areas to the more densely populated urban areas there is a greater need for public services. The person living on a farm provides a number of services for himself which are provided collectively in urban communities. For example, the farmer does not have fire protection, garbage collection, water service, police protection, etc. to the extent provided in cities. As population becomes more concentrated in cities public services will have to be expanded.

Greater aid per capita should go to the more densely populated areas if population is the measurement of need. Figure 1 presents the relationship between population density and per capita state aid. The relationship between population density and per capita state aid for Oklahoma and Tulsa counties is not included. These two counties have population densities which are so much greater than the remainder of the state that by including them in the calculation the relationship between state aid and population density would be unduly distorted.

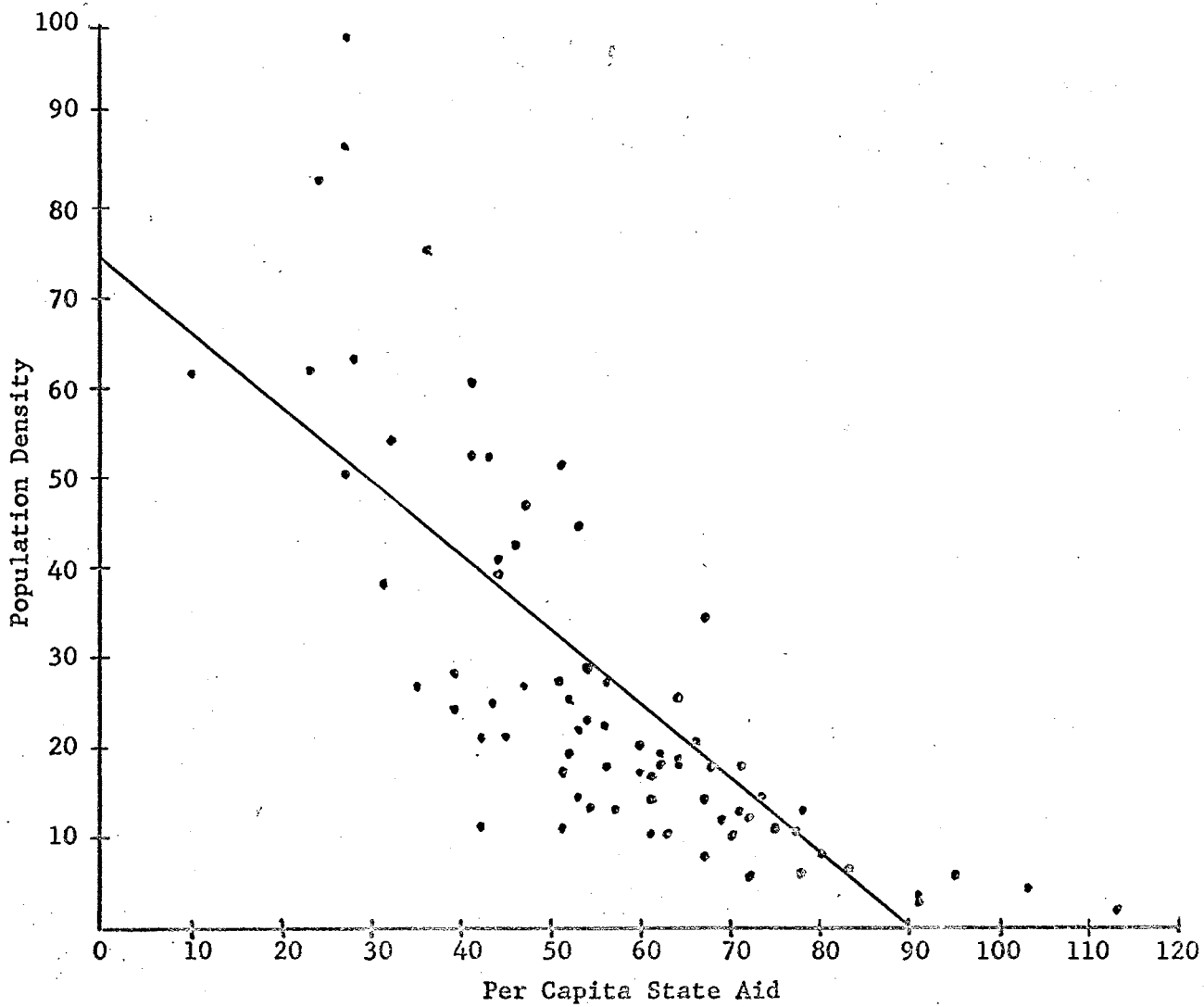

Fig. 1.--Correlation of Population Density and Per Capita State Aid

The correlation coefficient is -.7517.[1] The regression equation is Y = 74.5 + (-) .85X. The greater population density a county has the less per capita state aid it receives. State aid does not satisfy the need criterion if population density is used as a basis of need.

Fiscal ability as a measurement of need:

The adjusted value of real property is used as the measure of fiscal ability since a major part of the counties tax collections are derived from the property tax. Personal property is excluded from the measurement of fiscal ability because so much of it escapes taxation. If the same proportion of personal property escaped taxation in each county personal property could be included in the measure of fiscal ability. However, some counties will assess more of its personal property than others.

It would be misleading to use assessed value of real property as the basis for determining fiscal ability because of the differing assessment practices on the part of counties. A real estate ratio study, completed in 1959 by the Oklahoma Tax Commission, is used to compute the adjusted value of locally assessed real property. The assessment ratios are presented in Table I.[2]

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[1] If Oklahoma and Tulsa Counties are included in the calculation the correlation coefficient is -.4677.

[2] The assessment ratio study was completed in 1959 whereas the data pertaining to assessed value of real property is for 1957. The assumption is that assessment ratios did not vary extensively between 1957 and 1959.

TABLE I

OKLAHOMA TAX COMMISSION REAL ESTATE RATIO STUDY--
COMPLETED DECEMBER 10, 1959[a]

County	Total Property[b]			
	Market Value	Total Assessed Value	Total Transactions	Ratio: 2 ÷ 1
Adair	$ 315,825	$ 68,535	110	21.70
Alfalfa	801,375	159,728	125	19.93
Atoka	433,230	80,880	146	18.67
Beaver	302,975	64,070	50	21.15
Beckham	1,150,155	242,716	221	21.10
Blaine	516,525	114,891	101	22.24
Bryan	1,112,358	200,513	267	18.03
Caddo	1,476,222	305,219	281	20.68
Canadian	2,185,190	431,833	276	19.76
Carter	2,152,650	396,194	357	18.40
Cherokee	921,037	202,420	277	21.98
Choctaw	868,683	172,795	227	19.89
Cimarron	280,575	54,448	46	19.41
Cleveland	5,647,350	1,112,370	615	19.70
Coal	186,835	52,067	61	27.87
Comanche	8,054,950	1,492,424	835	18.53
Cotton	557,659	87,588	97	15.71
Craig	1,172,800	230,624	208	19.66
Creek	1,915,820	402,275	328	21.00
Custer	1,466,398	314,344	259	21.44
Delaware	659,663	124,045	137	18.80
Dewey	251,035	53,959	67	21.49
Ellis	308,135	57,857	73	18.78
Garfield	6,711,025	1,357,298	751	20.22
Garvin	1,396,690	300,421	276	21.51
Grady	2,057,684	422,490	343	20.53
Grant	970,275	180,479	119	18.60
Greer	551,375	117,250	115	21.27
Harmon	564,743	85,173	72	15.08
Harper	231,843	39,525	58	17.05
Haskell	337,275	87,029	106	25.80
Hughes	893,682	214,450	245	24.00
Jackson	1,466,499	258,527	216	17.63
Jefferson	409,267	80,453	89	19.65
Johnston	559,367	109,076	142	19.50
Kay	6,082,100	1,016,095	723	16.71
Kingfisher	589,400	144,905	83	24.59
Kiowa	512,595	117,393	107	22.90
Latimer	355,823	80,860	104	22.72
Le Flore	719,219	128,945	209	17.93
Lincoln	876,950	171,097	225	19.51
Logan	1,091,600	247,641	182	22.69

TABLE I--Continued

County	Total Property[b] Market Value	Total Assessed Value	Total Transactions	Ratio: 2 ÷ 1:
Love	$ 195,020	$ 47,877	65	24.55
McClain	509,337	88,973	90	17.47
McCurtain	354,116	72,300	116	20.42
McIntosh	382,943	96,280	131	25.14
Major	700,260	158,593	124	22.65
Marshall	361,248	54,272	69	15.02
Mayes	1,179,670	177,720	231	15.07
Murray	651,200	133,032	134	20.43
Muskogee	5,987,798	1,515,548	711	25.31
Noble	1,282,300	311,983	179	24.33
Nowata	830,850	174,035	157	20.95
Okfuskee	584,916	121,455	158	20.76
Oklahoma	76,282,563	16,410,632	5692	21.51
Okmulgee	2,069,376	491,911	359	23.77
Osage	3,025,223	715,477	443	23.65
Ottawa	1,448,958	340,364	219	23.49
Pawnee	706,846	123,227	163	17.43
Payne	4,297,925	1,056,370	621	24.58
Pittsburg	1,543,094	314,805	335	20.40
Pontotoc	2,578,176	535,313	420	20.76
Pottawatomie	3,593,918	654,966	621	18.22
Pushmataha	224,285	44,150	61	19.68
Roger Mills	296,540	51,710	63	17.44
Rogers	1,724,820	404,215	312	23.44
Seminole	1,371,588	301,685	329	22.00
Sequoyah	412,540	68,291	116	16.55
Stephens	2,312,975	513,726	360	22.21
Texas	882,800	160,435	114	18.17
Tillman	524,266	112,748	95	21.51
Tulsa	55,700,484	14,188,100	3768	25.47
Wagoner	1,280,577	202,059	194	15.78
Washington	7,958,725	1,957,502	784	24.60
Washita	1,139,211	174,945	149	15.36
Woods	1,060,715	182,102	164	17.17
Woodward	1,069,520	233,773	163	21.86

[a]Source: Copy of the study sent to the author by the Oklahoma Tax Commission.

[b]This includes urban and rural property.

Table II presents the computation of the adjusted value of real property, by county, for Oklahoma. The net locally assessed value of real property[3] is divided by the assessment ratio to derive the adjusted value of locally assessed real property. To this total is added the assessed value of public service property.[4] The total of assessed value of public service property and adjusted value of locally assessed real property is multiplied by 35 percent because the law states that property cannot be assessed at more than 35 percent of its fair cash value. The total is divided by the population of each county; the result being per capita adjusted value of real property. This figure represents the fiscal ability as adjusted for population differences in each county.

The per capita adjusted value of real property is compared with per capita state aid, by county. If per capita state aid increases as fiscal ability increases the state aid program does not satisfy the criterion of need. On the other hand, if per capita state aid increases as fiscal ability decreases the state aid program does satisfy the criterion of need.

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[3]Net locally assessed value of real property is equal to total locally assessed value of property minus assessed value of personal property minus homestead exemptions.

[4]This figure is not adjusted because public service property is centrally assessed by the Oklahoma Tax Commission.

TABLE II

ADJUSTED VALUE OF REAL PROPERTY, BY COUNTY, 1957

County	Net Locally Assessed Value of Real Property[a] (Thousands)	Assessment Ratio[b]	Adjusted Value of Locally Assessed Real Property 1 ÷ 2 (Thousands)	Assessed Value of Public Service Property[c] (Thousands)	Columns 3 plus 4 (Thousands)	Adjusted Value of Real Property Column 5 x .35 d (Thousands)
Adair	$ 1,891	21.70	$ 8,714	$ 2,023	$ 10,737	$ 3,758
Alfalfa	14,007	19.93	72,575	3,391	75,966	26,588
Atoka	2,125	18.67	11,368	2,783	14,151	4,953
Beaver	8,134	21.15	37,831	9,463	47,294	16,553
Beckham	8,814	21.10	41,774	4,870	46,644	16,325
Blaine	9,671	22.24	43,564	2,644	46,208	16,172
Bryan	6,332	18.03	35,178	5,030	40,208	14,073
Caddo	11,842	20.68	57,207	10,244	67,451	23,608
Canadian	14,643	19.76	73,957	16,226	90,183	31,564
Carter	13,001	18.40	70,660	8,975	79,635	27,872
Cherokee	3,556	21.98	16,165	457	16,622	5,818
Choctaw	3,125	19.89	15,626	2,458	18,084	6,330
Cimarron	7,042	19.41	36,300	3,823	40,123	14,043
Cleveland	14,108	19.70	71,614	6,405	78,019	27,307
Coal	2,432	27.87	8,715	956	9,671	3,385
Comanche	18,954	18.53	102,454	5,906	108,360	37,926
Cotton	3,767	15.71	23,999	1,336	25,335	8,867
Craig	6,208	19.66	31,510	4,935	36,445	12,756
Creek	9,079	21.00	43,232	16,685	59,917	20,971
Custer	10,251	21.44	47,904	4,262	52,166	18,258
Delaware	4,237	18.80	22,536	1,130	23,666	8,283
Dewey	4,619	21.49	21,483	1,041	22,524	7,883
Ellis	5,418	18.78	28,820	2,449	31,268	10,944
Garfield	36,712	20.22	181,743	10,959	192,702	67,446
Garvin	10,796	21.51	50,214	10,639	60,853	21,299
Grady	13,484	20.53	65,777	9,493	75,270	26,345
Grant	13,469	18.60	72,416	3,784	76,200	26,670
Greer	4,750	21.27	22,404	1,073	23,477	8,217
Harmon	3,356	15.08	22,223	937	23,160	8,106
Harper	4,224	17.05	24,702	2,688	27,390	9,587
Haskell	2,661	25.80	10,316	1,177	11,493	4,023
Hughes	4,721	24.00	19,670	5,900	25,570	8,950
Jackson	9,861	17.63	56,027	3,806	59,833	20,941
Jefferson	4,645	19.65	23,578	3,092	26,670	9,334
Johnston	2,486	19.50	12,747	1,928	14,675	5,136
Kay	26,591	16.71	159,228	13,377	172,605	60,412

TABLE II--Continued

County	Net Locally Assessed Value of Real Property[a] (Thousands)	Assessment Ratio[b]	Adjusted Value of Locally Assessed Real Property 1 ÷ 2 (Thousands)	Assessed Value of Public Service Property[c] (Thousands)	Columns 3 plus 4 (Thousands)	Adjusted Value of Real Property Column 5 x .35[d] (Thousands)
Kingfisher	$ 14,269	24.59	$ 58,005	$ 2,272	$ 60,277	$ 21,097
Kiowa	9,856	22.90	43,039	3,932	46,971	16,440
Latimer	1,894	22.72	8,343	1,811	10,154	3,554
LeFlore	3,939	17.93	22,005	6,700	28,705	10,047
Lincoln	4,969	19.51	25,483	12,051	37,534	13,137
Logan	9,431	22.69	41,547	7,707	49,254	17,239
Love	2,331	24.55	9,477	2,164	11,641	4,074
McClain	4,531	17.47	25,893	4,865	30,758	10,765
McCurtain	6,270	20.42	30,737	1,904	32,641	11,424
McIntosh	3,603	25.14	14,354	2,293	16,647	5,827
Major	7,094	22.65	31,252	2,159	33,411	11,694
Marshall	2,009	15.02	13,394	1,562	14,956	5,235
Mayes	4,734	15.07	31,354	4,168	35,522	12,433
Murray	3,471	20.43	17,015	6,416	23,431	8,201
Muskogee	23,633	25.31	93,411	17,540	110,951	38,833
Noble	9,336	24.33	38,419	5,357	43,776	15,322
Nowata	4,962	20.95	23,628	3,069	26,697	9,344
Okfuskee	3,206	20.76	15,414	7,162	22,576	7,902
Oklahoma	229,598	21.51	1,066,503	56,056	1,122,559	392,896
Okmulgee	10,663	23.77	44,802	7,485	52,287	18,300
Osage	17,634	23.65	74,404	17,096	91,500	32,025
Ottawa	10,815	23.49	46,020	5,930	51,950	18,182
Pawnee	3,630	17.43	20,864	4,490	25,354	8,874
Payne	15,424	24.58	62,701	8,642	71,343	24,970
Pittsburg	8,311	20.40	40,741	7,451	48,192	16,867
Pontotoc	9,422	20.76	45,296	6,244	51,540	18,039
Pottawatomie	10,862	18.22	59,679	10,443	70,122	24,543
Pushmataha	3,625	19.68	18,401	1,930	20,331	7,116
Roger Mills	3,754	17.44	21,576	1,065	22,641	7,924
Rogers	7,338	23.44	31,357	6,007	37,364	13,077
Seminole	5,824	22.00	26,471	7,317	33,788	11,825
Sequoyah	2,376	16.55	14,314	3,759	18,073	6,325
Stephens	13,866	22.21	62,459	7,612	70,071	24,525
Texas	13,866	18.17	76,188	16,826	93,014	32,555

TABLE II--Continued

County	Net Locally Assessed Value of Real Property [a] (Thousands)	Assessment Ratio [b]	Adjusted Value of Locally Assessed Real Property 1 ÷ 2 (Thousands)	Assessed Value of Public Service Property (Thousands)	Columns 3 plus 4 (Thousands)	Adjusted Value of Real Property Column 5 x .35 [d] (Thousands)
Tillman	$ 10,955	21.51	$ 50,952	$ 2,309	$ 53,261	$ 18,641
Tulsa	244,892	25.47	960,362	54,494	1,014,856	355,200
Wagoner	4,850	15.78	30,693	3,883	34,576	12,102
Washington	22,978	24.60	93,406	7,331	100,737	35,258
Washita	9,165	15.36	59,515	2,561	62,076	21,727
Woods	9,232	17.17	53,674	6,026	59,700	20,895
Woodward	8,933	21.86	40,788	4,811	45,599	15,960

[a]Source: Oklahoma Tax Commission, Thirteenth Biennial Report of The Oklahoma Tax Commission, 1956 - 58. Net locally assessed value of real property is equal to total locally assessed value of property minus assessed value of personal property minus homestead exemptions.

[b]Source: Study completed by the Oklahoma Tax Commission on December 10, 1959.

[c]Source: Oklahoma Tax Commission, Thirteenth Biennial Report of The Oklahoma Tax Commission, 1956-58.

[d]The value in column 5 is multiplied by .35 because property is to be assessed at 35 per cent of true value.

Table III illustrates the relation between per capita state aid and fiscal ability as measured by per capita adjusted value of real property. There is a positive correlation between fiscal ability and per capita state aid. The correlation coefficient is +.3934. Counties with greater fiscal ability receive relatively more state aid per capita. Therefore, the state aid program does not satisfy the criterion of need. On the basis of the foregoing evidence the conclusion is that the state aid program, in Oklahoma, does not satisfy the criterion of need when the latter is measured by population density and fiscal ability.

State Aid and Equalization

One of the justifications for state aid is that it brings about a degree of equalization between wealthy and less wealthy local areas. The need for equalization results from the fact that some areas are endowed with a larger quantity and greater quality of resources, both human and non-human. In an effort to counteract this distribution of resources a state may try to equalize: (1) specific or general tax effort, (2) quantity and quality of given public services, or (3) both tax effort and service offerings.[5] The purpose of this section is to ascertain whether the aggregate state aid program in Oklahoma brings about equalization of tax effort and service offerings.[6]

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[5]Paul H. Wueller, "Some Aspects of The Problem of Equalization," National Tax Association, Proceedings of The Thirty-Third National Conference, (Columbia, S. C., 1940), p. 224.

[6]The state may try to equalize tax effort, quantity and quality of certain public services or both. It is not within the scope of this study to ascertain whether or not the quality of public services has been equalized.

TABLE III

CORRELATION OF PER CAPITA STATE AID AND PER CAPITA ADJUSTED VALUE OF REAL PROPERTY

Per Capita State Aid	Total Counties	Per Capita Adjusted Value of Real Property														
		200 : 399.9	400 : 599.9	600 : 799.9	800 : 999.9	1000 : 1199.9	1200 : 1399.9	1400 : 1599.9	1600 : 1799.9	1800 : 1999.9	2000 : 2199.9	2200 : 2399.9	2400 : 2599.9	2600 : 2799.9	2800 : 2999.9	3000 : 3199.9	3200 : 3399.9
110-119.99	1															1	
100-109.99	1										1						
90- 99.99	3						1	1				1					
80- 89.99	2							1				1					
70- 79.99	10		2	4	1	1	1		1								
60- 69.99	18	3	4	5	1	2	1									1	1
50- 59.99	17	1	5	2	5	1	1	1	1	1							
40- 49.99	12		3	5	3	1											
30- 39.99	8			4	1	1											
20- 29.99	6		3		1	1	1										
10- 19.99	1				1												
0- 9.99	0																
Total	77																

State aid and tax effort:

If equalization is accomplished by the state aid program some equalization of tax effort is to be expected. The computation of the tax effort index, for each of the counties in Oklahoma, is presented in Table IV. The per capita adjusted value of real property is the basis for the computation of an index of fiscal ability.[7] The average per capita adjusted value of real property is the base. The indices for each county are determined by dividing the per capita adjusted value of real property by the state average.

The index of fiscal ability is one component of the tax effort index. The other component is the tax index. The first step in determining the tax index for each county is to add the tax collections and net utility revenue.[8] Net utility revenue is included as a component of the tax index because many municipalities in Oklahoma use utility charges in lieu of (and in some cases in addition to) property taxes. The average per capita tax collections plus utility revenue for the state are used as the base. Per capita tax collections plus net utility

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[7]It is often said that per capita income should be used as the basis for determining the fiscal ability of a particular level of government since all taxes are eventually paid out of income. However, all taxes are not paid out of the incomes of residents of a particular county. A person earning income in Oklahoma County could very easily live, own property and pay taxes in Cleveland County. In this case, if per capita income is used as the basis for measuring fiscal ability it would be over-stated in Oklahoma County and under-stated in Cleveland County.

[8]Net utility revenue equals gross utility revenue minus utility expenditure.

TABLE IV

THE TAX EFFORT INDEX, BY COUNTY, 1957

County	Per Capita Adjusted Value of Real Property[a]	Index of Fiscal Ability	Tax Collections Plus Net Utility Revenue[b] (Thousands)	Per Capita Tax Collection Plus Net Utility Revenue	Tax Index	Tax Effort Index 5÷2
State	$ 840.41	1.000	$109,529	$ 47.04	1.000	1.000
Adair	286.59	.341	418	31.85	.677	1.985(1)[d]
Alfalfa	3,148.37	3.746	779	92.24	1.960	.523(74)
Atoka	478.43	.569	332	32.07	.681	1.196(25)
Beaver	2,376.57	2.827	745	106.96	2.273	.804(55)
Beckham	918.07	1.092	1,151	64.72	1.375	1.259(18)
Blaine	1,339.11	1.583	756	62.59	1.330	.840(50)
Bryan	580.27	.690	636	26.22	.557	.807(54)
Caddo	824.84	.981	1,190	41.57	.883	.900(48)
Canadian	1,276.50	1.518	1,255	50.75	1.078	.710(64)
Carter	713.86	.849	948	24.28	.516	.607(68)
Cherokee	327.54	.389	372	20.94	.445	1.143(32)
Choctaw	404.78	.481	453	28.96	.615	1.278(14)
Cimarron	3,123.46	3.716	443	98.53	2.094	.563(71)
Cleveland	573.67	.682	1,691	35.52	.755	1.107(35)
Coal	610.38	.726	249	44.89	.954	1.314(12)
Comanche	417.67	.497	2,487	27.38	.582	1.171(28)
Cotton	1,104.13	1.313	422	52.54	1.118	.851(49)
Craig	782.41	.930	-434	-26.62[c]	-.565	-.607(77)
Creek	517.86	.616	1,631	40.27	.850	1.389(9)
Custer	867.77	1.032	585	27.80	.590	.571(70)
Delaware	627.61	.746	356	26.97	.573	.768(58)
Dewey	1,302.83	1.550	358	59.16	1.257	.810(53)
Ellis	2,005.49	2.386	375	68.71	1.460	.611(67)
Garfield	1,273.15	1.514	3,731	70.42	1.497	.988(41)
Garvin	752.89	.895	1,495	52.84	1.123	1.254(20)
Grady	890.31	1.059	733	24.77	.526	.496(76)
Grant	3,276.40	3.898	745	91.52	1.945	.498(75)
Greer	925.64	1.101	446	50.24	1.068	.970(42)
Harmon	1,385.11	1.648	245	41.86	.889	.539(72)
Harper	1,609.55	1.915	387	64.97	1.381	.721(62)
Haskell	441.02	.524	162	17.76	.377	.719(63)
Hughes	590.96	.703	742	48.99	1.041	1.480(6)
Jackson	704.24	.837	1,100	36.99	.786	.939(46)
Jefferson	1,139.44	1.355	491	59.93	1.274	.940(45)
Johnston	603.05	.718	203	26.18	.556	.774(57)
Kay	1,183.57	1.408	3,290	91.27	1.940	1.377(10)
Kingfisher	1,983.70	2.360	784	80.77	1.717	.727(60)

TABLE IV--Continued

County	Per Capita Adjusted Value of Real Property[a]	Index of Fiscal Ability	Tax Collections Plus Net Utility Revenue[b] (Thousands)	Per Capita Tax Collections Plus Net Utility Revenue	Tax Index	Tax Effort Index 5÷2
Kiowa	$1,108.91	1.319	$ 698	$ 52.07	1.106	.838(51)
Latimer	459.27	.546	211	29.07	.617	1.130(34)
LeFlore	345.17	.410	828	31.78	.675	1.646(3)
Lincoln	699.39	.832	812	48.66	1.034	1.242(21)
Logan	923.74	1.099	934	55.56	1.181	1.074(36)
Love	695.03	.826	260	46.91	.997	1.207(23)
McClain	844.99	1.005	739	59.65	1.268	1.261(17)
McCurtain	441.93	.525	744	30.09	.639	1.217(22)
McIntosh	470.99	.560	311	27.48	.584	1.042(37)
Major	1,497.67	1.782	399	51.74	1.099	.616(66)
Marshall	720.73	.857	254	38.55	.819	.955(44)
Mayes	619.37	.737	696	44.08	.937	1.271(15)
Murray	772.05	.918	457	49.23	1.046	1.139(33)
Muskogee	627.69	.746	2,351	40.65	.864	1.158(30)
Noble	1,476.65	1.757	761	84.81	1.802	1.025(40)
Nowata	861.37	1.024	477	50.23	1.067	1.041(38)
Okfuskee	675.01	.803	486	45.27	.962	1.198(24)
Oklahoma	893.94	1.063	24,438	45.07	.958	.901(47)
Okmulgee	495.33	.589	1,372	43.47	.924	1.568(4)
Osage	987.17	1.174	1,475	56.99	1.211	1.031(39)
Ottawa	642.46	.764	1,047	52.04	1.106	1.447(7)
Pawnee	815.29	.970	500	52.46	1.115	1.149(31)
Payne	564.53	.671	1,619	45.69	.971	1.447(8)
Pittsburg	490.89	.584	970	32.15	.683	1.169(29)
Pontotoc	642.20	.764	1,141	46.10	.980	1.282(13)
Pottawatomie	591.59	.703	1,468	41.82	.889	1.264(16)
Pushmataha	782.98	.931	457	51.38	1.092	1.172(27)
Roger Mills	1,556.82	1.852	263	52.25	1.110	.599(69)
Rogers	634.39	.754	691	44.48	.946	1.254(19)
Seminole	421.34	.501	1,200	43.18	.917	1.830(2)
Sequoyah	351.39	.418	385	23.38	.497	1.188(26)
Stephens	645.90	.768	2,151	56.62	1.203	1.566(5)
Texas	2,298.74	2.735	1,283	90.59	1.925	.703(65)
Tillman	1,272.10	1.513	786	53.63	1.140	.753(59)
Tulsa	1,026.47	1.221	19,289	55.74	1.184	.969(43)
Wagoner	772.14	.918	489	31.20	.663	.722(61)
Washington	832.59	.990	2,618	61.82	1.314	1.327(11)
Washita	1,198.97	1.426	638	35.20	.748	.524(73)
Woods	1,751.16	2.083	976	81.79	1.738	.834(52)
Woodward	1,148.02	1.366	709	50.99	1.083	.792(56)

TABLE IV--Continued

[a]Source: The adjusted value of real property, Table II, divided by the 1960 population.

[b]Source: U. S. Department of Commerce, Bureau of the Census, Census of Government: 1957 (Washington: U. S. Government Printing Office), Vol. VI, Government in Oklahoma, pp. 17-22. The net contribution of utilities was added to the total local tax collections to get the figures in this column.

[c]The net contribution of utilities are negative, i.e. the expenses of utilities are larger than the income, and this negative figure is larger than the total local tax collections.

[d]The numbers in parenthesis gives the rank of each county with respect to the "tax effort index."

revenues for each county are divided by the state average. The result is the tax index.

In order to determine an index of tax effort for a county the tax index is divided by the index of fiscal ability. The tax effort index is recorded in the last column of Table IV. The number in parenthesis denotes the rank of a county with respect to the tax effort index.

Figure 2 illustrates the relation of each county's tax effort index with respect to the state average.[9] The shaded area to the right of the base line of 1.0 shows how much greater a county's tax effort index is than the average. The non-shaded area to the left of the base line of 1.0 illustrates how much the county's tax effort is below the average. The dispersion around the base line exemplifies the degree of equalization of tax effort. The greater the equalization the less dispersion and conversely the less equalization the greater the dispersion.

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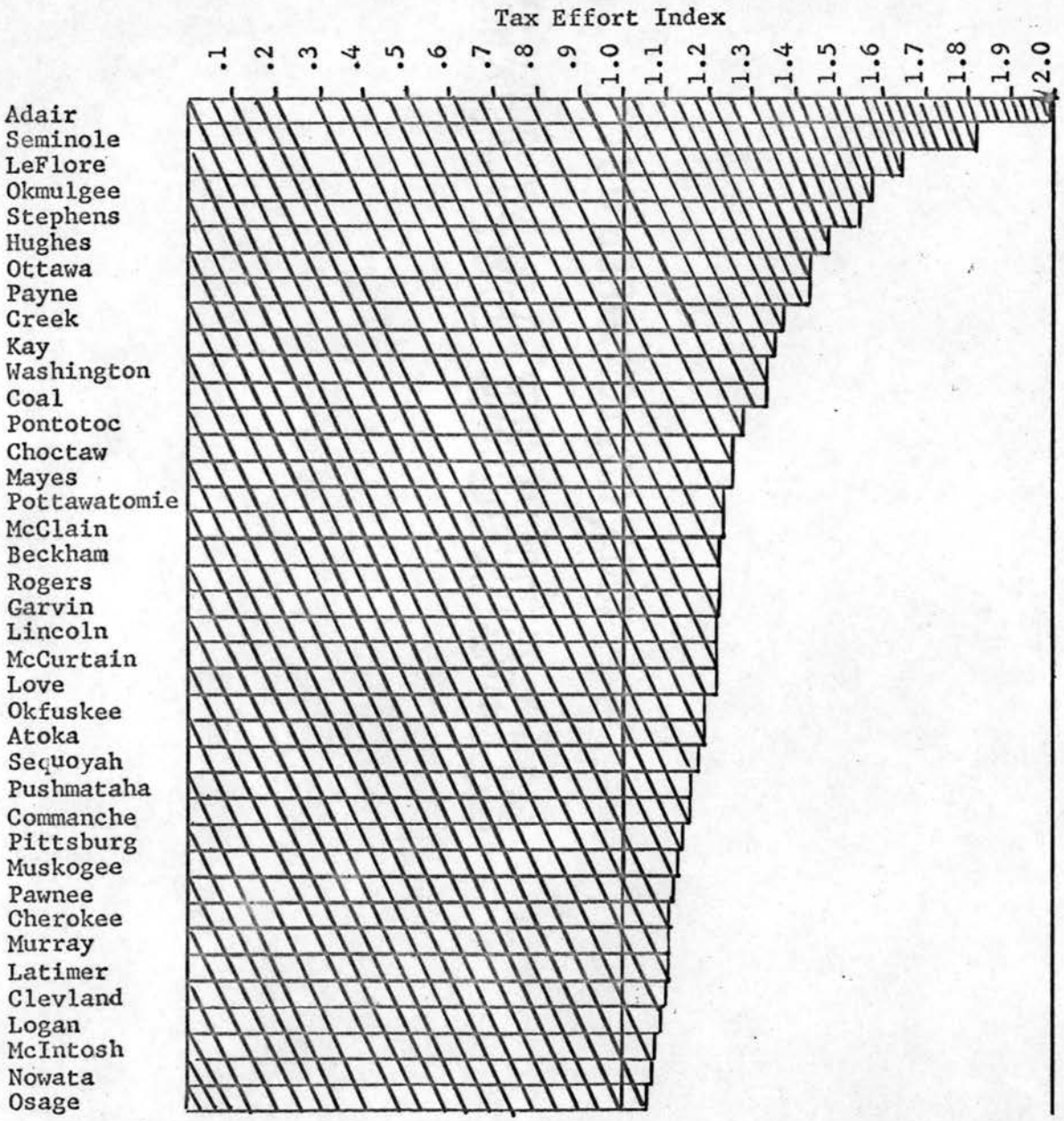
[9]There are only seventy-six counties recorded in Figure 2 because Craig County has a negative tax effort index which would be difficult to show on this diagram.


Tax Effort Index
.1
.2
.3
.4
.5
.6
.7
.8
.9
1.0
1.1
1.2
1.3
1.4
1.5
1.6
1.7
1.8
1.9
2.0
Adair
Seminole
LeFlore
Okmulgee
Stephens
Hughes
Ottawa
Payne
Creek
Kay
Washington
Coal
Pontotoc
Choctaw
Mayes
Pottawatomie
McClain
Beckham
Rogers
Garvin
Lincoln
McCurtain
Love
Okfuskee
Atoka
Sequoyah
Pushmataha
Commanche
Pittsburg
Muskogee
Pawnee
Cherokee
Murray
Latimer
Clevland
Logan
McIntosh
Nowata
Osage

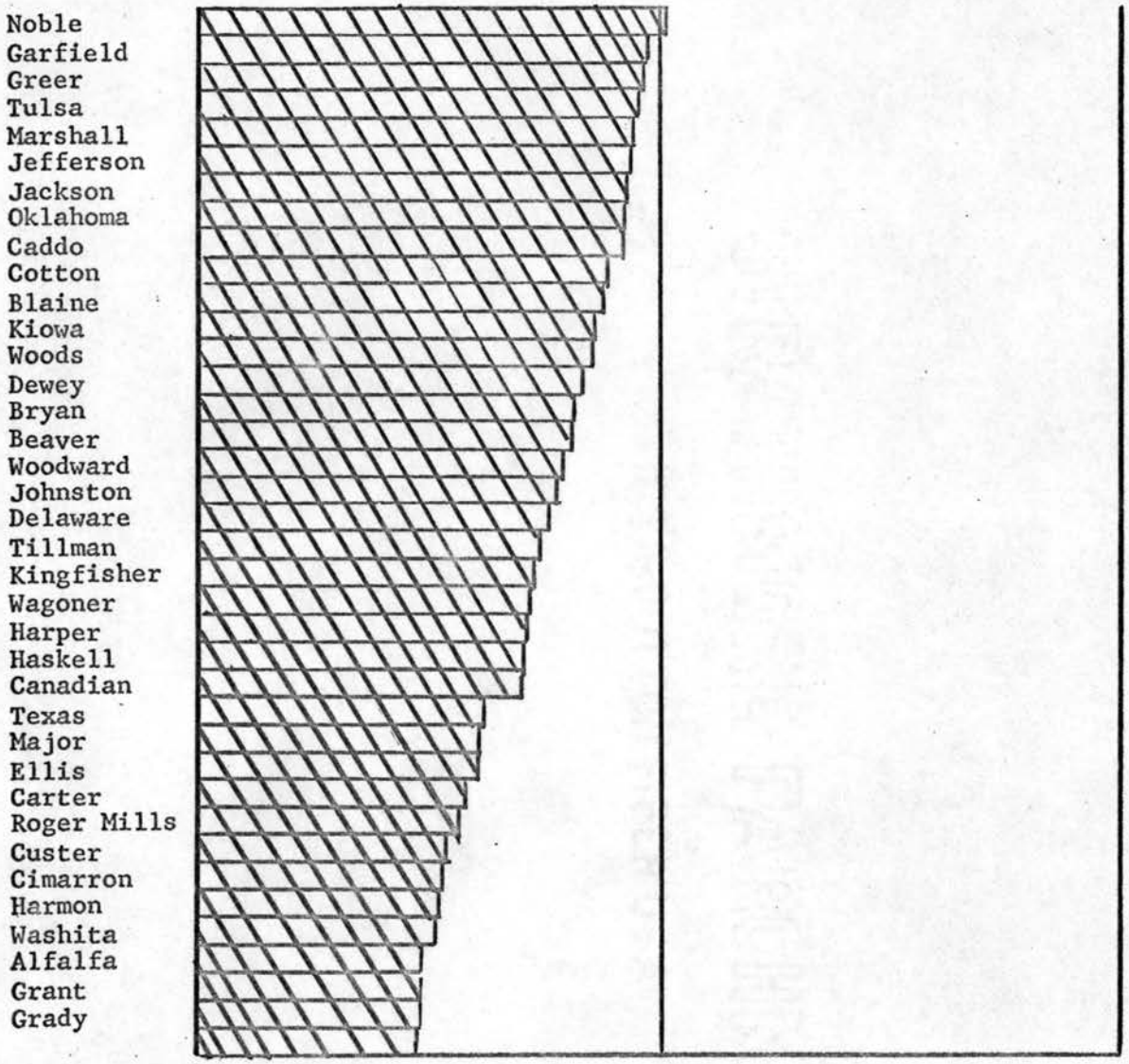


Fig. 2.--Tax Effort Index, By County, 1957

The dispersion of the tax effort index from the base line may be quantified. The coefficient of variation[10] measures the dispersion quite nicely and makes comparisons of different dispersions possible.[11] The coefficient of variation for the tax effort index is equal to 36 per cent.

If the coefficient of variation for tax effort is greater than the coefficient of variation for fiscal ability it may be concluded that equalization has not taken place. On the other hand, if the coefficient of variation for tax effort is less than the coefficient of variation for fiscal ability it may be concluded some equalization has occurred.

The arithmetic mean for the index of fiscal ability is equal to one. The standard deviation is .42. Therefore, the coefficient of variation is 42%.[12]

It is evident, from the above discussion, that there is a greater degree of inequality in fiscal ability than in tax effort. Therefore,

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[10] Since the standard deviation is stated in different measurements, e.g. dollars, indices, etc., it is not possible to make comparisons of dispersion on the basis of this measure. The coefficient of variation is stated in the form of percentage and not in terms of original data. It is especially useful in making comparisons between distributions which have different means and different standard deviations.

[11] The formula for the coefficient of variation is as follows:

$$V = \frac{\sigma}{\bar{X}} \cdot 100.$$

It is necessary to compute the standard deviations and the arithmetic mean before the coefficient of variation can be determined. The mean index of tax effort equals one and the standard deviation is equal to .36.

[12] Since the means of the indices of tax effort and fiscal ability are the same it would be correct to compare their standard deviations. However, since the means of other variations presented below are not the same it was decided to adhere to a standard form of comparing dispersion.

the conclusion is that state aid has promoted some equalization of tax effort. Without state aid the less wealthy counties would have to make a greater effort to provide the present level of public services; therefore, the deviation of tax effort, from the state average, would be greater than is demonstrated in Figure 2.

State aid and the equalization of education and highway expenditures:

The benefits from education and highways accrue to the state, as a whole, as well as to the individual county. Likewise, if these services are not provided in sufficient quantities by local governments, the entire state will suffer. Since all counties are not equally capable of providing acceptable amounts of education and highway services, an alternative is for the state to assist in their financing.

It is the purpose of this section to examine the extent to which equalization of education and highway services has been brought about by state aid. A comparison between the equalization of education expenditures and highway expenditures is also made.

The computation of per capita education and highway expenditure indices is presented in Table V. In this way each county's education and highway expenditure may be compared to the average for the state. Each county is ranked in relation to the size of its respective index. The information contained in Table V is presented graphically in Figures 3 and 4. Visual examination of Figures 3 and 4 points out that there tends to be more equalization of education expenditures than highway expenditures. The differences in variation between per capita education expenditures and per capita highway expenditures becomes more apparent when the dissimilarity in their coefficients of variation are

TABLE V

PER CAPITA EDUCATION AND HIGHWAY EXPENDITURE INDICES, BY COUNTY, AND COUNTY RANK, 1957[a]

County	Population (1960)[b]	Education Expenditure[c] (Thousands)	Per Capita Education Expenditure	Highway Expenditure[c] (Thousands)	Per Capita Highway Expenditure	Per Capita Education Expenditure		Per Capita Highway Expenditure	
						Index	Rank	Index	Rank
Total	2,328,284	$150,660	$ 64.70	$39,612	$17.01	1.000	..	1.000	..
Adair	13,112	991	75.57	234	17.84	1.168	19	1.048	58
Alfalfa	8,445	980	116.04	328	38.83	1.793	3	2.282	10
Atoka	10,352	669	64.62	310	29.94	.998	46	1.760	25
Beaver	6,965	552	79.25	512	73.19	1.224	14	4.302	2
Beckham	17,782	1,296	72.88	431	24.23	1.126	22	1.424	37
Blaine	12,077	1,157	95.80	316	26.16	1.480	6	1.537	30
Bryan	24,252	1,376	56.73	454	18.72	.876	67	1.100	55
Caddo	28,621	1,941	67.81	592	20.68	1.048	35	1.215	46
Canadian	24,727	1,506	60.90	486	19.65	.941	58	1.155	52
Carter	39,044	2,441	62.51	1297	33.21	.966	53	1.952	17
Cherokee	17,762	1,200	67.55	335	18.86	1.044	36	1.108	54
Choctaw	15,637	957	61.20	290	18.54	.945	55	1.089	56
Cimarron	4,496	755	167.92	369	82.07	2.595	1	4.824	1
Cleveland	47,600	1,791	37.62	610	12.81	.581	77	.753	70
Coal	5,546	361	65.09	178	32.09	1.006	43	1.886	18
Commanche	90,803	5,262	57.94	765	8.42	.895	63	.495	76
Cotton	8,031	662	82.43	277	34.49	1.274	13	2.027	15
Craig	16,303	817	50.11	337	20.67	.774	73	1.215	47
Creek	40,495	2,336	57.68	610	15.06	.891	64	.885	64
Custer	21,040	1,409	66.96	522	24.80	1.034	38	1.457	34
Delaware	13,198	899	68.11	274	20.76	1.052	33	1.220	45
Dewey	6,051	532	87.91	315	52.05	1.358	8	3.059	7
Ellis	5,457	409	74.94	391	71.65	1.158	20	4.212	3
Garfield	52,975	2,734	51.60	749	14.13	.797	72	.830	67
Garvin	28,290	1,844	65.18	865	30.57	1.007	42	1.797	21
Grady	29,590	1,750	59.14	668	22.57	.914	60	1.326	40
Grant	8,140	694	85.25	428	52.57	1.317	10	3.090	6
Greer	8,877	633	71.30	268	30.19	1.102	26	1.774	22
Harmon	5,852	447	76.38	201	34.34	1.180	17	2.018	16
Harper	5,956	364	61.11	264	44.32	.944	57	2.605	8
Haskell	9,121	767	84.09	226	24.77	1.299	12	1.456	35
Hughes	15,144	1,082	71.44	344	22.71	1.104	25	1.335	39
Jackson	29,736	1,197	40.25	420	14.12	.622	76	.830	68
Jefferson	8,192	832	101.56	247	30.15	1.569	5	1.772	24

TABLE V--Continued

County	Population (1960)[b]	Education Expenditure[c] (Thousands)	Per Capita Education Expenditure	Highway Expenditure[c] (Thousands)	Per Capita Highway Expenditure	Per Capita Education Expenditure		Per Capita Highway Expenditure	
						Index	Rank	Index	Rank
Johnston	8,517	$ 552	$ 64.81	$ 264	$30.99	1.001	45	1.821	20
Kay	51,042	3,483	68.23	1091	21.37	1.054	31	1.256	42
Kingfisher	10,635	807	75.88	375	35.26	1.172	18	2.072	13
Kiowa	14,825	986	66.50	559	37.70	1.027	39	2.216	12
Latimer	7,738	453	58.54	163	21.06	.904	62	1.238	43
LeFlore	29,106	1,888	64.86	586	20.13	1.002	44	1.183	51
Lincoln	18,783	1,401	74.58	729	38.81	1.152	21	2.281	11
Logan	18,662	1,040	55.72	390	20.89	.861	68	1.228	44
Love	5,862	454	77.44	177	30.19	1.196	16	1.774	23
McClain	12,740	903	70.87	283	22.21	1.095	27	1.305	41
McCurtain	25,851	1,854	71.71	472	18.25	1.108	24	1.072	57
McIntosh	12,371	679	54.88	282	22.79	.848	69	1.339	38
Major	7,808	536	68.64	310	39.70	1.060	29	2.333	9
Marshall	7,263	413	56.86	212	29.18	.878	66	1.715	26
Mayes	20,073	1,370	68.25	256	12.75	1.054	32	.749	71
Murray	10,622	661	62.22	159	14.96	.961	52	.879	65
Muskogee	61,866	4,064	65.69	654	10.57	1.015	40	.621	74
Noble	10,376	913	87.99	360	34.69	1.359	7	2.039	14
Nowata	10,848	739	68.12	308	28.39	1.052	34	1.669	27
Okfuskee	11,706	992	84.74	297	25.37	1.309	11	1.491	33
Oklahoma	439,506	27,368	62.26	2651	6.03	.962	51	.354	77
Okmulgee	36,945	1,952	52.83	401	10.85	.816	70	.637	73
Osage	32,441	2,052	63.25	840	25.89	.977	50	1.522	31
Ottawa	28,301	1,963	69.36	410	14.48	1.072	28	.851	66
Pawnee	10,884	702	64.49	286	26.27	.996	47	1.544	29
Payne	44,231	1,976	44.67	606	13.70	.690	75	.805	69
Pittsburg	34,360	1,965	57.18	588	17.11	.883	65	1.005	61
Pontotoc	28,089	1,718	61.16	499	17.76	.945	56	1.044	59
Pottawatomie	41,486	2,155	51.94	723	17.42	.802	71	1.024	60
Pushmataha	9,088	793	87.25	240	26.40	1.348	9	1.552	28
Roger Mills	5,090	328	64.44	328	64.44	.995	48	3.788	4
Rogers	20,614	1,410	68.40	311	15.08	1.057	30	.886	63
Seminole	28,066	1,842	65.63	572	20.38	1.014	41	1.198	48
Sequoyah	18,001	1,404	77.99	292	16.22	1.205	15	.953	62
Stephens	37,990	2,332	61.38	770	20.26	.948	54	1.191	49
Texas	14,192	1,625	114.74	808	57.05	1.773	4	3.353	5
Tillman	14,654	1,091	130.33	379	25.86	2.014	2	1.520	32
Tulsa	346,038	24,942	72.07	4249	12.27	1.113	23	.721	72

TABLE V--Continued

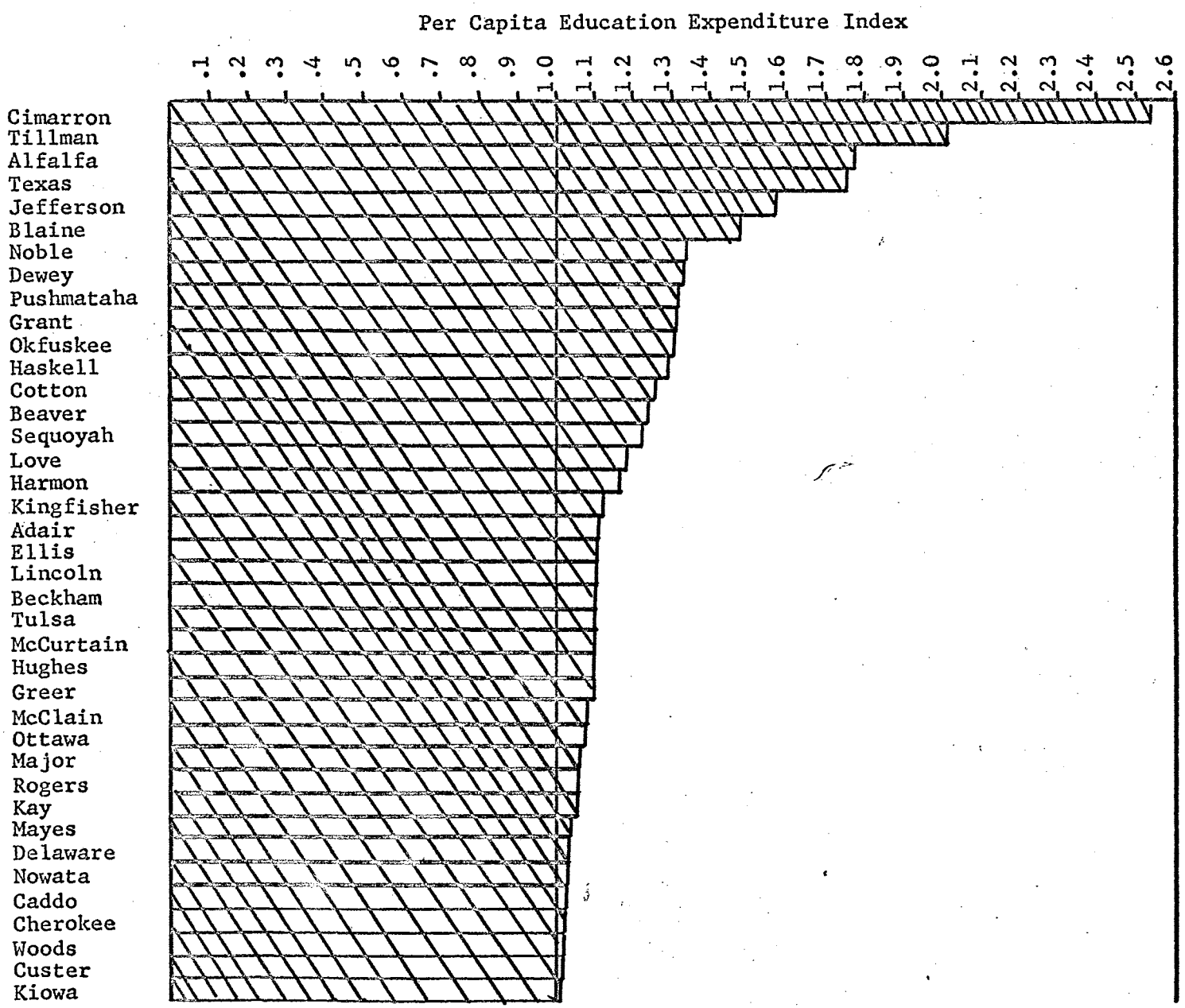
County	Population (1960)[b]	Education Expenditure[c] (Thousands)	Per Capita Education Expenditure	Highway Expenditure[c] (Thousands)	Per Capita Highway Expenditure	Per Capita Education Expenditure		Per Capita Highway Expenditure	
						Index	Rank	Index	Rank
Wagoner	$ 15,673	$ 928	$ 59.21	$ 303	$19.33	.915	59	1.136	53
Washington	42,347	2,709	63.97	437	10.31	.988	49	.606	75
Washita	18,121	1,072	59.15	365	20.14	.914	61	1.184	50
Woods	11,932	805	67.46	375	31.42	1.042	37	1.847	19
Woodward	13,902	697	50.13	339	24.38	.774	74	1.433	36

[a]The data in this table includes total expenditure of all local governments, counties, cities, towns, and school districts on education and highways.

[b]Source: U. S. Department of Commerce, Bureau of the Census, Census of Population: 1960 (Washington: U. S. Government Printing Office).

[c]Source: U. S. Department of Commerce, Bureau of the Census, Census of Government: 1957 (Washington: U. S. Government Printing Office), Vol. VI, Government in Oklahoma, pp. 17-22.

examined. The standard deviation for per capita education expenditure is $19.00. The average per capita education expenditure is $64.20. The standard deviation for per capita highway expenditure is $13.90. The average per capita highway expenditure is $17.01. The coefficient of variation for per capita education expenditure is 29.3 percent, whereas the coefficient of variation for per capita highway expenditure is 81.7 percent. The inference is that there is considerably more equalization between counties for education expenditure than for highway expenditure. Such a pattern, however, normally would be expected from the state aid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Cimarron
Tillman
Alfalfa
Texas
Jefferson
Blaine
Noble
Dewey
Pushmataha
Grant
Okfuskee
Haskell
Cotton
Beaver
Sequoyah
Love
Harmon
Kingfisher
Adair
Ellis
Lincoln
Beckham
Tulsa
McCurtain
Hughes
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Caddo
Cherokee
Woods
Custer
Kiowa

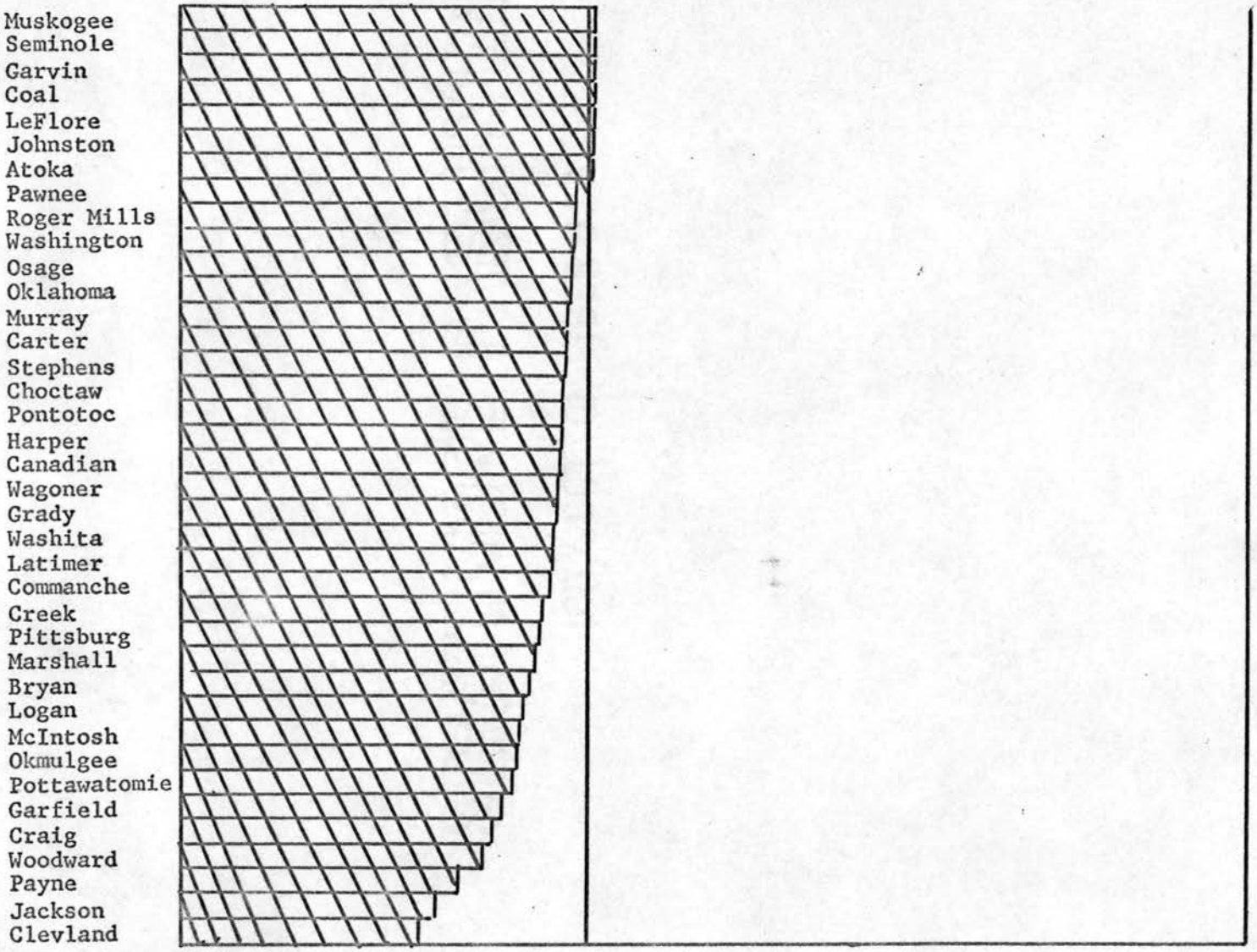
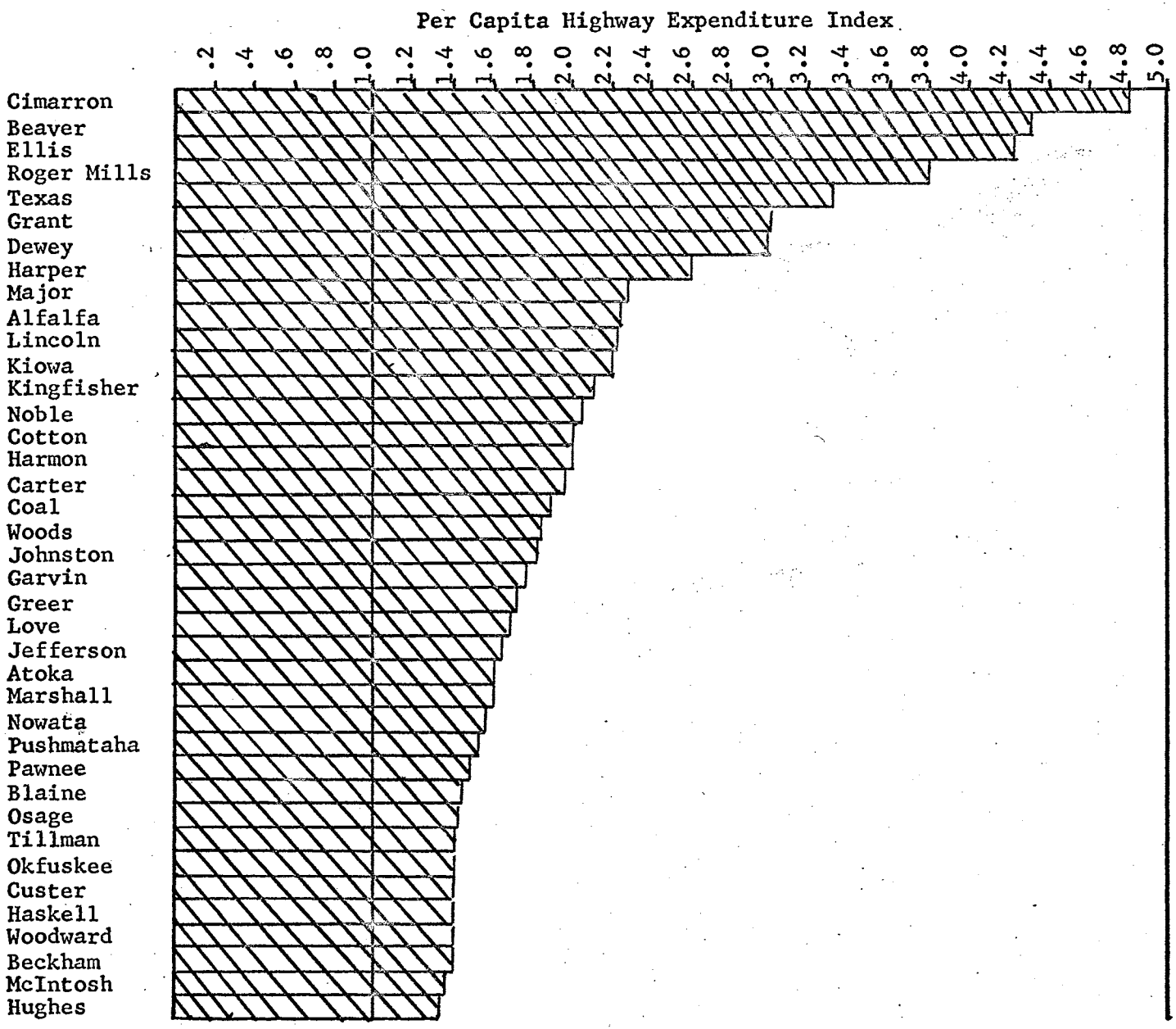


Fig. 3.--Per Capita Education Expenditure Indices, By County, 1957


Per Capita Highway Expenditure Index
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Cimarron
Beaver
Ellis
Roger Mills
Texas
Grant
Dewey
Harper
Major
Alfalfa
Lincoln
Kiowa
Kingfisher
Noble
Cotton
Harmon
Carter
Coal
Woods
Johnston
Garvin
Greer
Love
Jefferson
Atoka
Marshall
Nowata
Pushmataha
Pawnee
Blaine
Osage
Tillman
Okfuskee
Custer
Haskell
Woodward
Beckham
McIntosh
Hughes

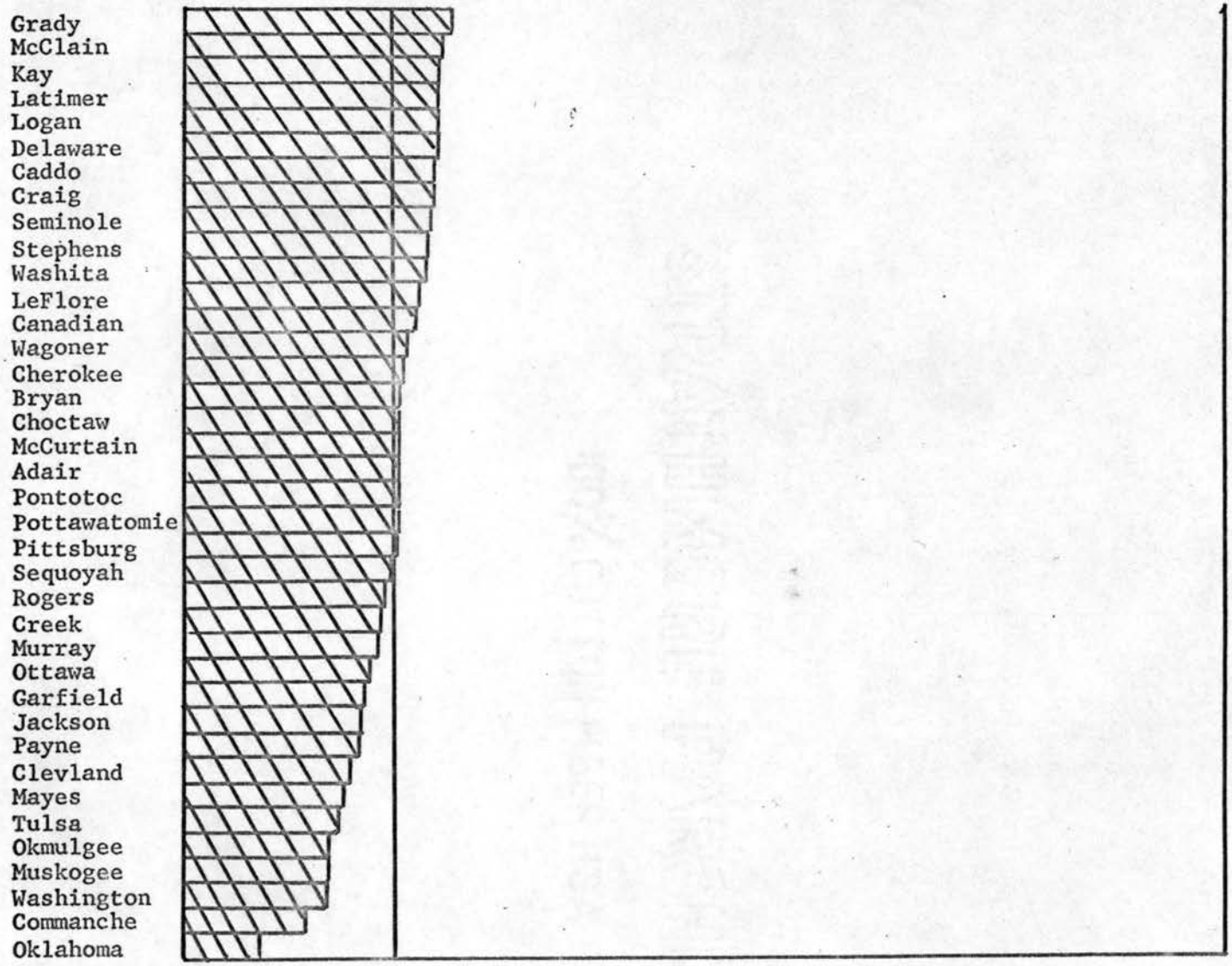

Fig. 4.--Per Capita Highway Expenditure Indices, By County, 1957

program as set up in Oklahoma. The statutes provide for a minimum program in education and aid is based upon the difference between the minimum program and minimum program income. On the other hand, highway aid to local governments depends upon shared revenues and the distribution of these revenues does not bring about as much equalization as school aid.

State Aid Should Not Favor One Segment of The Population, Vis-a-Vis Another If Both Are In Equal Circumstances

It is possible, because of a rurally dominated legislature, that the state aid program favors rural counties over urban counties. If this is the case in Oklahoma, then political factors outweigh economic factors in distributing state aid. It is the purpose of this section to determine whether one group of the population, rural or urban, is favored by the state aid program more than the other.

Oklahoma has been experiencing a decline in rural population and an increase in urban population[13] since 1890. In that year 3.7 percent of the total population lived in urban communities the remaining 96.3 percent lived in rural areas. In 1960 61 percent of the population lived in urban communities while the remaining 39 percent resided in rural areas. This information is presented in tabular form in Table VI and graphically in Figure 5. The decline in rural population and increase in urban population have been most rapid since 1940. Nevertheless, Oklahoma is still basically a rural state. In twenty-eight of the seventy-seven counties urban population is 50 percent or more of the

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[13]The Bureau of the Census defines urban areas as those having 2,500 or more residents.

TABLE VI

POPULATION OF THE STATE, URBAN AND RURAL: 1890 to 1960[a]

Year	STATE			URBAN TERRITORY			RURAL TERRITORY			PERCENT OF TOTAL	
		Increase Over Previous Census			Increase Over Preceding Census			Increase Over Previous Census			
	Population	Number	Percent	Population	Number	Percent	Population	Number	Percent	Urban	Rural
1960	2,328,284	94,933	4.3	1,419,793	312,541	28.2	908,491	-217,608	-19.3	61.0	39.0
1950	2,233,351	-103,083	-4.4	1,107,252	227,589	25.9	1,126,099	-330,672	-22.7	49.6	50.4
1940	2,336,434	-59,606	-2.5	879,663	57,982	7.1	1,456,771	-117,588	-7.5	37.6	62.4
1930	2,396,000	367,757	18.1	821,681	283,664	52.7	1,574,359	84,093	5.6	34.3	65.7
1920	2,028,283	371,128	22.4	538,017	219,042	68.7	1,490,266	152,086	11.4	26.5	73.5
1910	1,657,155	866,764	109.7	318,975	260,558	446.0	1,338,180	606,206	82.8	19.2	80.8
1900	790,391	531,734	205.6	58,417	48,933	516.0	731,974	482,201	193.8	7.4	92.6
1890	258,657			9,484			249,173			3.7	96.3

[a]Source: U. S. Department of Commerce, Bureau of The Census, Census of Population: 1960.

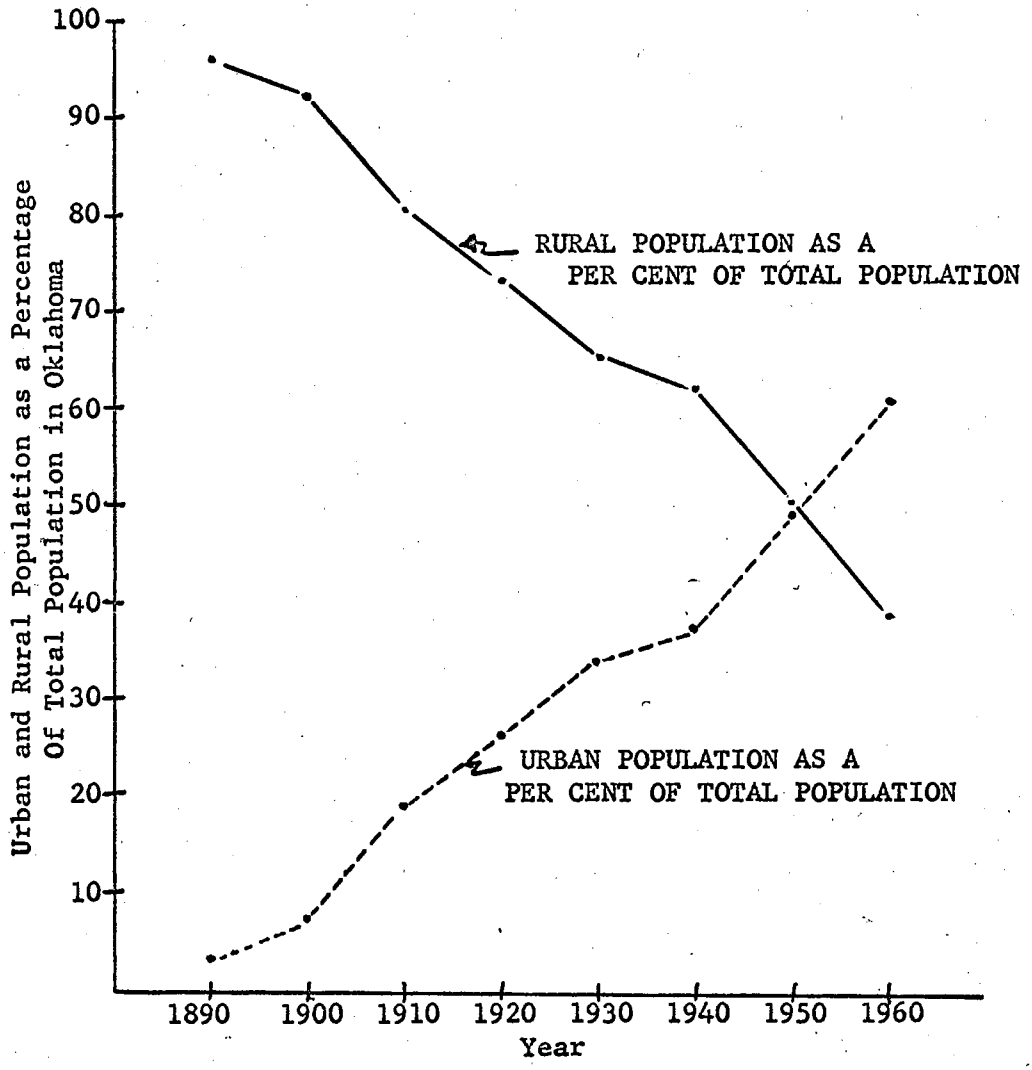

Fig. 5.--Urban and Rural Population as a Percentage of Total Population in Oklahoma: 1890-1960

total population. In four counties urban population is 75 percent or more of the total population. In eighteen of the counties zero percentage of the population is classified as urban. Although the Bureau of Census classifies an area as urban if it has 2,500 or more inhabitants, many of the smaller towns consider themselves as rural areas and their people are sympathetic to rural problems vis-a-vis municipal problems.

Table VII illustrates the percentage change in urban and rural population between 1950 and 1960. Only six counties recorded an increase in rural population. Since urban areas are showing an increase in population the need for public services is increasing. However, with tax limitations placed upon municipalities, by the state, it is difficult for them to raise the needed tax revenue to provide the services.[14] A possible solution to this problem is for the state to increase aid to municipalities and decrease aid to rural areas as population shifts from the former to the latter. However, when the percentage of the population of a county which is urban is correlated to per capita state aid, it is found that counties with the least percentage of its total population being urban receives the greatest amount of state aid per capita. Table VIII depicts the relationship between per capita state aid and the percentage of a county's total population which is urban. The correlation coefficient is equal to -.742. The correlation coefficient is significant enough to conclude that state aid in Oklahoma favors rural areas over urban areas.

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[14]See Appendix B which discusses the tax limitations placed upon municipalities by the state.

TABLE VII

PERCENTAGE CHANGE IN URBAN AND RURAL POPULATION 1950 TO 1960, BY COUNTY[a]

COUNTY	PERCENTAGE CHANGE IN URBAN POPULATION[b]	PERCENTAGE CHANGE IN RURAL POPULATION
Adair	...	-12.1
Alfalfa	...	4.7
Atoka	8.4	-35.6
Beaver	...	-6.0
Beckham	-1.9	35.2
Blaine	0.1	-25.2
Bryan	-0.7	-25.3
Caddo	1.9	-22.3
Canadian	30.0	-28.8
Carter	12.8	-0.2
Cherokee	22.9	-16.3
Choctaw	5.1	-35.2
Cimarron	...	-2.0
Cleveland	36.6	-25.9
Coal	...	-31.2
Comanche	78.2	41.4
Cotton	3.0	-30.0
Craig	9.2	-19.4
Creek	-1.6	-11.7
Custer	27.4	-30.8
Delaware	...	-10.4
Dewey	...	-31.2
Ellis	...	-25.5
Garfield	7.9	-16.0
Garvin	37.4	-25.1
Grady	-6.2	-22.6
Grant	...	-22.2
Greer	-7.5	-34.1
Harmon	-2.7	-43.0
Harper	...	-0.4
Haskell	...	-31.5
Hughes	-7.8	-34.8
Jackson	118.0	-17.7
Jefferson	...	-26.3
Johnston	...	-19.7
Kay	13.3	-14.1
Kingfisher	-2.9	-22.4
Kiowa	-4.6	-28.4
Latimer	...	-20.1
LeFlore	-2.7	-20.8
Lincoln	-7.3	-16.1
Logan	-6.0	-24.0
Love	...	-24.1

TABLE VII--Continued

COUNTY	PERCENTAGE CHANGE IN URBAN POPULATION[b]	PERCENTAGE CHANGE IN RURAL POPULATION
McClain	5.2	-19.1
McCurtain	6.3	-22.4
McIntosh	-49.5	22.9
Major	...	-24.0
Marshall	10.5	-22.4
Mayes	44.5	-10.9
Murray	7.9	-7.8
Muskogee	2.1	-15.8
Noble	1.4	-26.4
Nowata	5.0	-23.8
Okfuskee	-17.9	34.3
Oklahoma	51.3	-68.3
Okmulgee	-14.5	20.9
Osage	25.8	-14.3
Ottawa	-2.1	-21.8
Pawnee	-12.0	-22.2
Payne	2.3	-20.4
Pittsburg	-2.6	-26.8
Pontotoc	-10.3	-7.6
Pottawatomie	17.5	-29.4
Pushmataha	...	-4.3
Roger Mills	...	-31.2
Rogers	20.8	-0.4
Seminole	-18.3	-45.0
Sequoyah	16.2	-13.3
Stephens	28.4	-9.1
Texas	22.3	-11.8
Tillman	7.5	-27.7
Tulsa	48.5	-13.8
Wagoner	1.7	-9.2
Washington	46.6	-6.0
Washita	22.9	-1.4
Woods	-3.8	-29.3
Woodward	31.0	-27.3

[a]Source: U. S. Department of Commerce, Bureau of the Census, Census of Population: 1960.

[b]Some counties had no urban population in 1950 and 1960, therefore there was no change.

TABLE VIII

CORRELATION OF THE PERCENTAGE OF TOTAL POPULATION OF COUNTIES WHICH IS URBAN TO PER CAPITA STATE AID

Per Capita State Aid	Total Counties	Percentage of Total Population of Counties Which Are Urban									
		0.00 - 9.99	10.00 - 19.99	20.00 - 29.99	30.00 - 39.99	40.00 - 49.99	50.00 - 59.99	60.00 - 69.99	70.00 - 79.99	80.00 - 89.99	90.00 - 99.99
110-119.99	1	1									
100-109.99	1	1									
90- 99.99	3	3									
80- 89.99	2	1				1					
70- 79.99	10	5		2	1	1	1				
60- 69.99	18	7	3	2	3	3					
50- 59.99	17		1	5	4	2	3	2			
40- 49.99	12				1		7	4			
30- 39.99	6				1	1	1	1	2		
20- 29.99	6							1	4	1	
10- 19.99	1										1
0- 9.99	0										
Total	77										

State Aid and the Criterion of Fiscal Irresponsibility

Fiscal irresponsibility, on the part of local governments, may be the result of state aid. The residents of County A are now providing x quantity of public service z. State aid is given County A because it is believed that, in the best interest of the state, a larger quantity of z should be provided by A. However, as state aid increases the residents of A may take this opportunity to reduce the share of z financed locally. The result of such action may be that the same amount of z is provided as before the receipt of state aid; the difference is that a less amount of z is financed from local funds. Consequently, more equalization of public service expenditure and tax effort will not be promoted by state aid. Therefore, the purpose of this section is to determine whether state aid, in Oklahoma, leads to fiscal irresponsibility on the part of local governments.

The property tax is the most important source of local government tax revenue. Therefore, if local governments are going to be fiscally irresponsible, because of state aid, they will reduce property tax rates and/or decrease the assessment of property as aid increases.

The average property tax rates for all levels of government in a county are presented in Table IX. As one test of the hypothesis that aid causes fiscal irresponsibility the author related the average property tax rate with per capita state aid for each of the counties in Oklahoma. The result is presented in Figure 6. The scatter diagram shows a distinct negative correlation between average property tax rates and per capita state aid. The regression equation is $Y = 5.83 + (-) .023X$.

TABLE IX

AVERAGE PROPERTY TAX RATE, BY COUNTY, 1957[a]

County	Assessed Value of Property Subject to Local General Property Tax[b] (Thousands)	Property Tax Revenue (Thousands)	Average Property Tax Rate 2 ÷ 1
Adair	$ 4,907	$ 386	7.8
Alfalfa	21,710	695	3.2
Atoka	5,834	308	5.2
Beaver	20,288	736	3.6
Beckham	17,649	1,032	5.8
Blaine	15,532	673	4.3
Bryan	13,383	635	4.7
Caddo	26,832	1,085	4.0
Canadian	33,837	1,086	3.2
Carter	26,621	1,571	5.9
Cherokee	5,758	309	5.3
Choctaw	6,874	386	5.6
Cimarron	12,953	426	3.2
Cleveland	22,638	1,396	6.1
Coal	4,708	241	5.1
Comanche	29,988	1,773	5.9
Cotton	6,807	353	5.1
Craig	13,882	566	4.0
Creek	30,920	1,582	5.1
Custer	18,047	913	5.0
Delaware	6,631	351	5.2
Dewey	7,692	344	4.4
Ellis	9,757	348	3.5
Garfield	64,398	3,282	5.0
Garvin	28,352	1,236	4.3
Grady	27,822	1,296	4.6
Grant	22,134	703	3.1
Greer	8,149	342	4.1
Harmon	5,434	221	4.0
Harper	8,373	353	4.2
Haskell	5,366	160	2.9
Hughes	12,462	621	4.9
Jackson	15,567	730	4.6
Jefferson	9,817	434	4.4
Johnston	5,755	201	3.4
Kay	63,432	3,128	4.9
Kingfisher	20,700	775	3.7
Kiowa	17,330	673	3.8
Latimer	4,523	208	4.5
LeFlore	12,750	808	6.3
Lincoln	21,010	772	3.6
Logan	20,688	894	4.3
Love	5,321	257	4.8

TABLE IX--Continued

County	Assessed Value of Property Subject to Local General Property Tax[b] (Thousands)	Property Tax Revenue (Thousands)	Average Property Tax Rate 2 ÷ 1
McClain	$ 10,774	$ 733	6.8
McCurtain	10,224	725	7.0
McIntosh	7,648	305	3.9
Major	11,720	397	3.3
Marshall	5,266	247	4.6
Mayes	12,732	686	5.3
Murray	11,490	439	3.8
Muskogee	43,640	2,180	4.9
Noble	17,831	755	4.2
Nowata	10,678	458	4.2
Okfuskee	12,034	478	3.9
Oklahoma	330,235	22,927	6.9
Okmulgee	24,934	1,263	5.0
Osage	40,890	1,438	3.5
Ottawa	22,072	1,009	4.5
Pawnee	10,642	480	4.5
Payne	33,895	1,538	4.5
Pittsburg	19,174	889	4.6
Pontotoc	20,027	1,077	5.3
Pottawatomie	24,834	1,365	5.4
Pushmataha	6,476	452	6.9
Roger Mills	6,446	261	4.0
Rogers	16,650	662	3.9
Seminole	19,122	1,133	5.9
Sequoyah	7,028	383	5.4
Stephens	29,169	1,775	6.0
Texas	35,605	1,201	3.3
Tillman	16,705	596	3.5
Tulsa	347,534	20,230	5.8
Wagoner	10,349	425	4.1
Washington	38,722	2,268	5.8
Washita	15,052	627	4.1
Woods	18,255	858	4.7
Woodward	17,340	627	3.6

[a]Calculated from: U. S. Department of Commerce, Bureau of Census, Census of Governments: 1957 (Washington: U. S. Government Printing Office), Vol. VI, Government in Oklahoma, pp. 17-22.

[b]This figure is net of locally assessed values exempt from the tax.

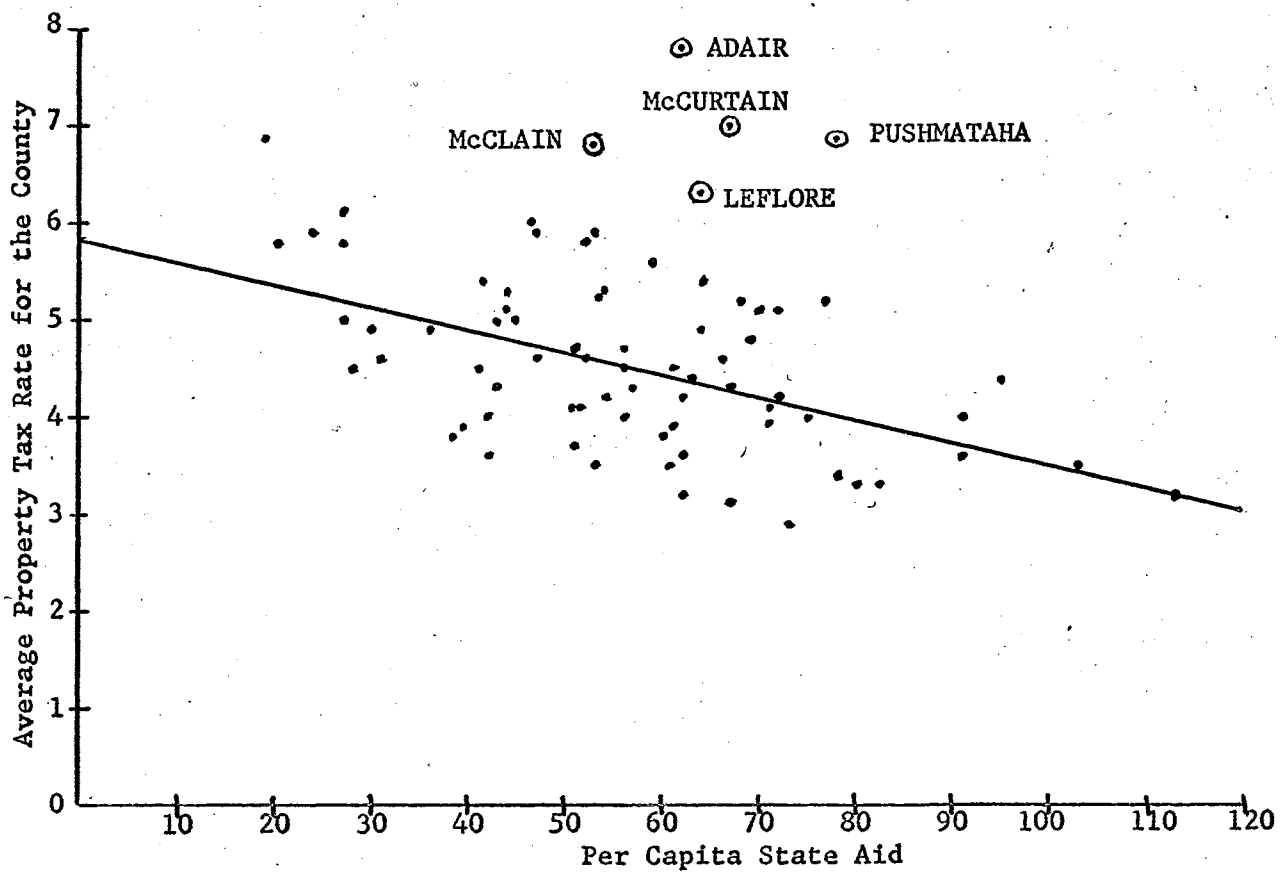

Fig. 6.--Correlation of the Average Property Tax Rate And Per Capita State Aid

The data do not appear to deviate extensively from the linear regression. If all counties are included in the computation the correlation between average property tax rates and per capita state aid is -.30675. This provides some evidence that as per capita state aid in a county increases the property tax rate declines. If the six counties of Adair, McClain, McCurtain, LeFlore, Pushmataha, and Canadian are omitted from the computation the correlation coefficient increases to -.48652. This would indicate that greater state aid to counties may encourage them to lower property tax rates.

It is also possible for counties to effect lower property taxes by lowering the assessments. However, there is little evidence that state aid in Oklahoma causes local units to reduce assessments. When real property assessment ratios are compared to per capita state aid for each county the correlation coefficient is -.066. This correlation coefficient is so small that it cannot be used as evidence in support of the argument that a large amount of state aid, per capita, causes assessment ratios to decrease. The practice in Oklahoma is self assessment of property after the initial assessment. Therefore, once property is assessed initially, there is little change in assessments regardless of the value of property.

It should be pointed out that state aid is only one of several factors which may enter into the determination of property tax rates and assessment ratios by local governments. However, in figuring the budget local officials are likely to take into consideration the amount of aid they are to receive from the state. Given the quantity of public services desired they will more than likely deduct from total expenditure

the amount of state aid received. The remainder will have to be financed from local funds, i.e., the property tax. Other things equal, the larger the amount of state aid, the less that will have to come from local tax collections. Therefore, it is concluded, there is a strong possibility that state aid promotes some degree of fiscal irresponsibility on the part of local governments. This conclusion receives some support from the correlation of state aid per capita and average property tax rates as presented above.

State Aid Should Not Promote Inefficient Levels of Government

It is difficult to state, unequivocally, whether or not state aid retards the elimination of smaller, less efficient levels of government. It is not possible to examine a state which grants aid and then remove this aid in order to determine whether such action brings about consolidation of units of government. Therefore, the author has had to rely more on *a priori* reasoning than empirical investigation in this section.

Oklahoma has had seventy-seven counties since statehood. In Oklahoma, as in most states, the county boundaries were established by determining how far one could travel, by horse and buggy, from the county seat in one day. With modern day transportation the relatively small size of the county is not necessary. However, it is easier to establish a government than to eliminate one. It is reasonable to believe that, without state aid, some of the sparsely populated counties would find it very difficult to provide public services acceptable to the local population. Therefore, it is possible that, without state aid, there would have been a voluntary consolidation of the less efficient levels of governments. However, when the legislature is dominated by less

efficient governments, it is relatively easy for them to perpetuate their existence by granting themselves state aid.

Oklahoma retained the township level of government until 1933 when a constitutional amendment transferred all township powers to county governments.[15] It is important to note that the elimination of township government occurred even though the state, from its inception, provided local units of government with significant amounts of aid.

Oklahoma has reduced the number of school districts from 2,100 in 1952 to 1,643 in 1957. There is little doubt that the reduction of school districts would have been greater had it not been for state aid. It would be impossible for some of the school districts in sparsely populated areas of the state to keep operating and still provide a reasonable quality of education without state aid.

Oklahoma had 105 special districts in 1957. The special districts are as follows: conservancy districts (4); irrigation districts (3); sewer improvement districts (2); soil conservation districts (86); water distribution districts (9).[16] Special districts do not receive state aid, therefore, it cannot be said that aid promotes the extension of this level of government.

The conclusion is that Oklahoma could do without so many units of local government. However, consolidation of local governments is likely to be a very slow process due to the fact that aid from the state provides the funds necessary for them to continue operating.

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[15]Oklahoma, Constitution, Art. 5, sec. 5a.

[16]U. S. Department of Commerce, Bureau of the Census, Census of Government: 1957, Vol VI, No. 34, Government in Oklahoma, p. 2.

Summary

The purpose of this chapter is to examine the aggregate state aid program in Oklahoma with respect to the following questions:

1. Is state aid granted to local governments on the basis of need?
2. Does state aid bring about equalization of services and/or tax effort among the counties of the state?
3. Does state aid favor one segment of the economy, rural areas, vis-a-vis another segment, urban areas?
4. Does state aid promote fiscal irresponsibility on the part of local governments?
5. Does state aid cause the extension or retard the elimination of inefficient levels of government?

The evidence presented in the foregoing pages suggest the following answers to these questions:

1. State aid does not satisfy the need criterion.
2. Most of the evidence presented above indicates that state aid in Oklahoma does not bring about equalization of services and/or tax effort among counties of the state.
3. State aid favors counties with high rural to urban population.
4. There is some evidence that state aid may cause fiscal irresponsibility on the part of local governments.
5. There is no strong empirical evidence supporting the thesis that state aid causes the extension, or retards the elimination of, inefficient levels of government. However, a priori reasoning leads one to believe that state aid helps maintain less efficient governments.

CHAPTER III

AN EXAMINATION OF SHARED TAXES AND GRANTS-IN-AID WITH RESPECT TO THE ACCEPTED CRITERIA

Introduction

It was established in Chapter II that the aggregate state aid program falls short of satisfying the four criteria developed in Chapter I. State aid to local governments, in Oklahoma, is a combination of shared taxes and grants-in-aid. Therefore, it is possible that failure of one part of the state aid program to measure up to the accepted criteria may be the reason that the entire program has failed.

It is the purpose of this chapter to examine each part of the state aid program with respect to two of the accepted criteria. In Chapter II the criterion of equalization of services and/or tax effort was discussed. The equalization criterion must be examined within the framework of the total aid program because both shared taxes and grants-in-aid are devoted to aiding the locally provided services of education and highways. A discussion of the criterion of fiscal irresponsibility and the promotion of inefficient levels of government is omitted in this chapter. It is impossible to conclude that only one part of the state aid program (shared taxes or grants-in-aid) promotes fiscal irresponsibility or extension of inefficient levels of government.

In the first section of this chapter, shared taxes are examined with respect to the following criteria: (1) shared taxes should be granted to

local governments on the basis of need; (2) shared taxes should not favor one segment of the population vis-a-vis another if both are in equal circumstances. Utilizing the same criteria, the second part of this chapter is devoted to an examination of grants-in-aid.

Shared Taxes

In the first part of this section, shared taxes are examined within the framework of the criterion that state aid should be granted to local governments on the basis of need. Two measurements of need, population density, and fiscal ability, as developed in Chapter II are used. The assumption is that a greater amount of shared taxes per capita should be allocated to more densely populated areas and counties having the least fiscal ability.

The next step is to examine the criterion that shared taxes should not favor one segment of the population vis-a-vis another, if both are in equal circumstances. Two general classifications of the population, urban and rural, are used to test this criterion.

The total shared tax program in Oklahoma is a summation of twelve parts.[1] The need criterion is examined first of all with respect to total shared taxes and then in relation to each of the twelve shared revenues.

The two measurements of need used in this section are population density and fiscal ability. The higher the population density of a county the greater its need for shared revenues, other things equal.[2]

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[1]See Appendix C for a detailed discussion of the shared tax program as it now exists in Oklahoma.

[2]There are exceptions to this general statement which will be discussed later in this chapter.

Likewise, the less a county's fiscal ability, as determined by per capita adjusted value of real property, the greater its need for shared taxes.[3]

In order to test the criterion that more shared taxes, per capita, should be allocated to counties with the least amount of fiscal ability, the author correlated per capita shared revenues with per capita adjusted value of real property for the year 1957. The coefficient of correlation between fiscal ability and per capita shared taxes is +.7577. This correlation coefficient indicates that the greater a county's fiscal ability the more shared taxes, per capita, it receives. Figure 7 illustrates the relationship between fiscal ability and per capita shared taxes. The linear regression equation is $Y = 16.3 + .019X$. Visual examination of Figure 7 indicates that dispersion from the regression line is not great. This evidence supports the proposition that the distribution of shared taxes in Oklahoma is not based upon need.

In order to test the proposition that a larger amount of shared taxes, per capita, should be allocated to counties with higher population densities per capita shared taxes are correlated with population density for each county.[4] The coefficient of correlation between per capita shared revenues and population density is -.6284. The linear regression equation for Figure 8 is $Y = 51.6 - 72X$. Shared revenues, per capita, are greater for counties with low population density than for counties

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[3]See Chapter II for a detailed discussion concerning the justification of using population density and per capita adjusted value of real property as measurements of need.

[4]Again Tulsa and Oklahoma counties are omitted from the computation because population density is so high for these counties, relative to other counties, that including them would unduly distort the results.

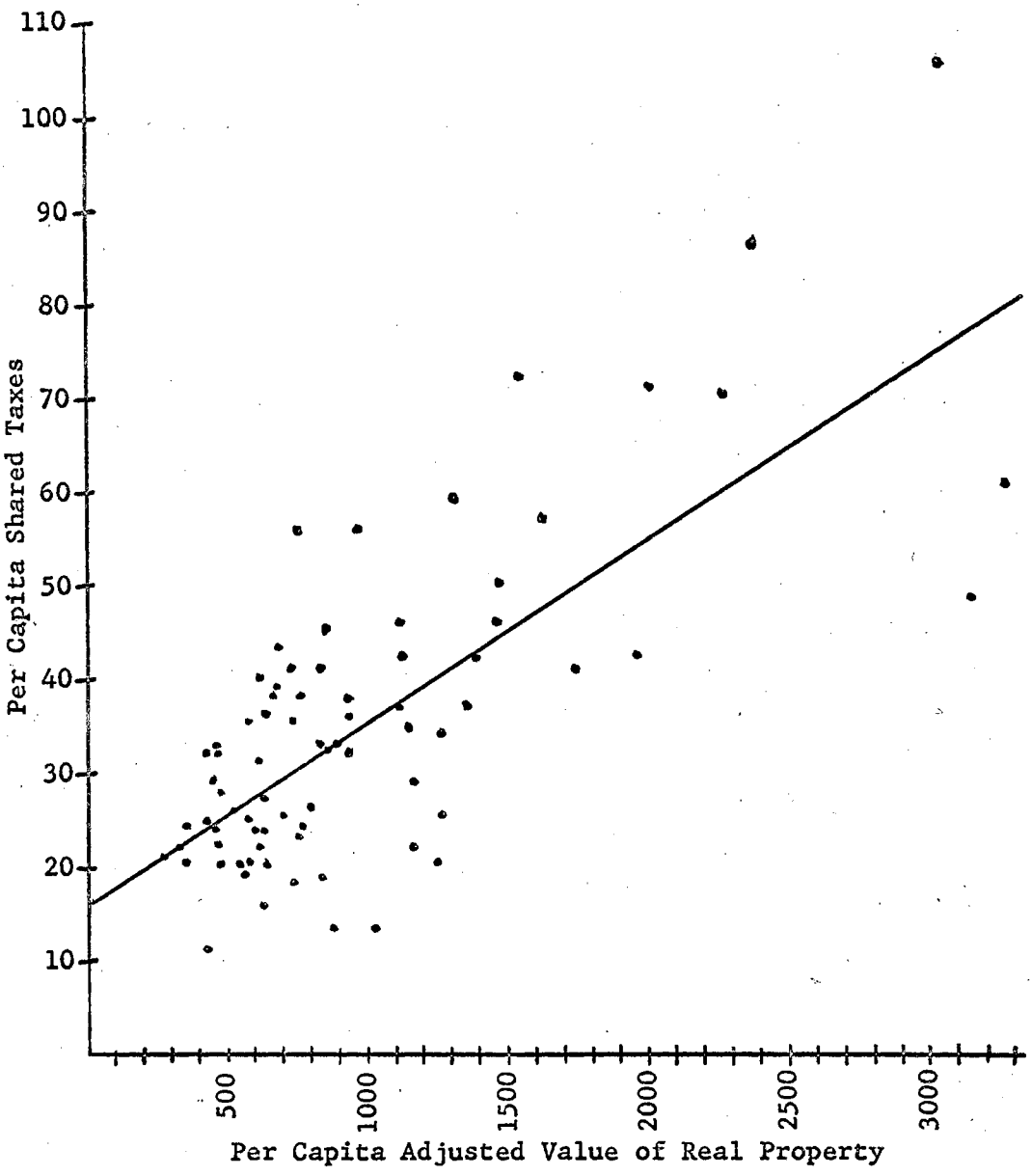

Fig. 7.--Correlation of Per Capita Shared Taxes and Per Capita Adjusted Value of Real Property

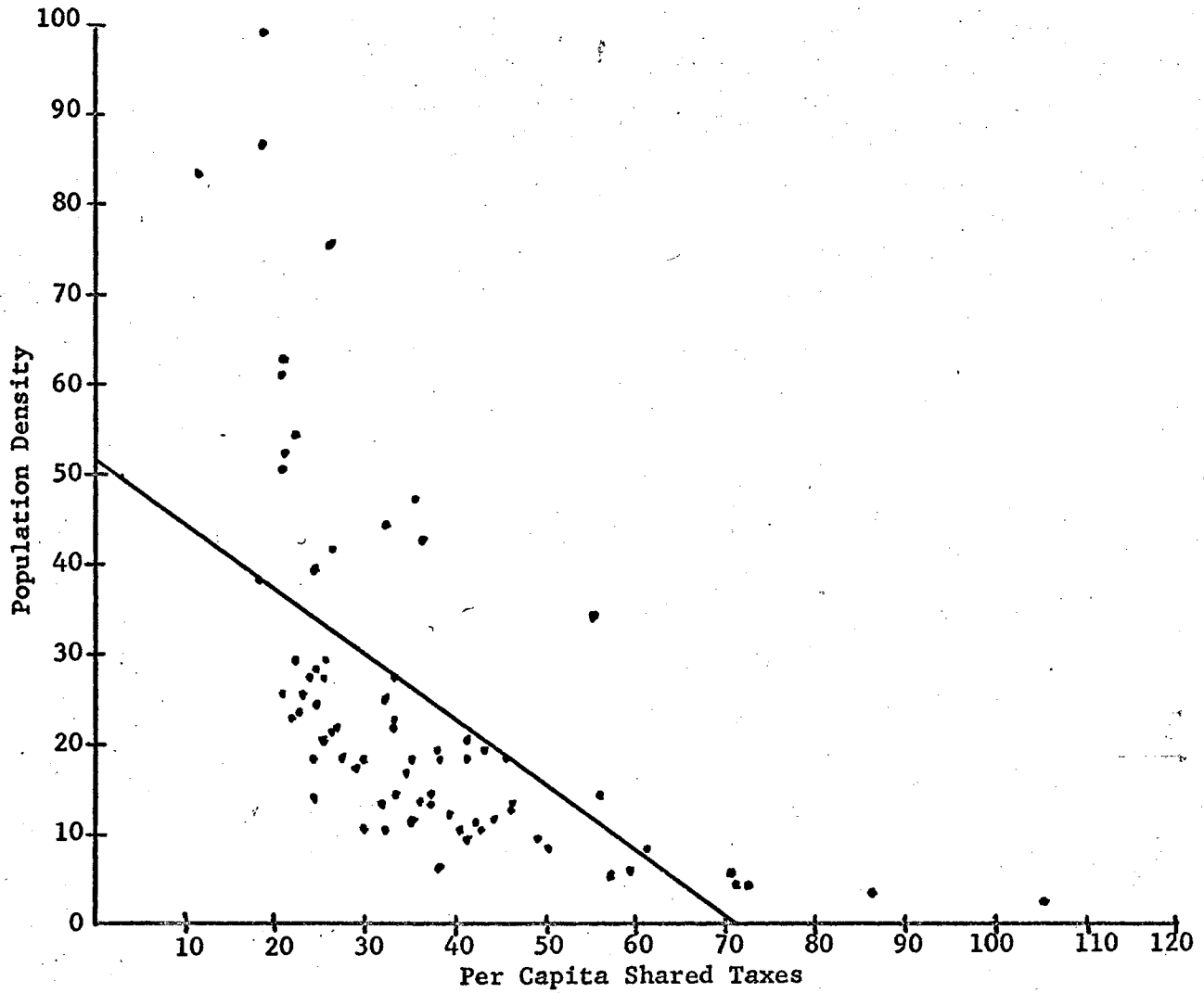

Fig. 8.--Correlation of Population Density and Per Capita Shared Taxes

with higher population density. This presents additional evidence that shared taxes are not distributed to local units of government on the basis of need.

The next step in the analysis is to examine each of the twelve shared taxes, itemized in Table X, as of fiscal year 1957, with respect to the criterion of need. A coefficient of correlation between fiscal ability and each of the twelve per capita shared taxes is presented in Table X. There are only two coefficients which do not show a significant amount of positive correlation. There is no significant correlation between fiscal ability and the following: per capita gross production tax apportioned to counties for roads (-.0901); per capita gross production tax apportioned to counties for schools -.0901. Eight of the twelve coefficients are .6 or higher. If per capita adjusted value of real property is used as a measurement of fiscal ability it may be concluded that, on a per capita basis, the four cent per gallon gasoline excise tax, the one cent per gallon excise tax, the one-half cent per gallon gasoline excise tax, the four cent per gallon special fuels tax, the one cent per gallon special fuels tax, the one-half cent per gallon special fuels tax, the commercial vehicle tax, the bus mileage tax, the auto and farm truck licenses, and the rural electric co-op tax increase as a county's fiscal ability increases.

The relationship between fiscal ability and per capita gross production tax deserves special attention because there is very little correlation in this case. Since the amount of the gross production tax received by a county depends upon the gross value of the mineral produced within its boundaries, there is no reason to expect that such apportionment would be based upon need as measured by the adjusted value of real

TABLE X

COEFFICIENTS OF CORRELATION BETWEEN PER CAPITA SHARED TAXES AND PER CAPITA ADJUSTED VALUE OF REAL PROPERTY

Shared Tax for Fiscal Year 1957	Coefficient of Correlation Between Per Capita Shared Tax and Per Capita Adjusted Value of Real Property
4¢ gasoline tax	+.7369
1¢ gasoline tax	+.6514
1/2¢ gasoline tax	+.7432
4¢ special fuels tax	+.4867
1¢ special fuels tax	+.6365
1/2¢ special fuels tax	+.7602
Commercial vehicle tax	+.7441
Bus mileage tax	+.9098
Gross production tax (for roads)	-.0901
Auto and farm truck licenses	+.6306
Gross production tax (for schools)	-.0901
Rural electric co-op tax	+.4333

property. It would be adventitious if large mineral deposits were located in counties with a substantial degree of fiscal ability.

If shared taxes are apportioned to counties on the basis of need, as measured by population density, there would be a positive correlation between each of the per capita shared taxes and population density. Upon examination of Table XI it is evident that in most cases the coefficients are significant and also negative. In seven of twelve cases the

TABLE XI

COEFFICIENTS OF CORRELATION BETWEEN PER CAPITA SHARED TAX AND POPULATION DENSITY

Shared Tax for Fiscal Year 1957	Coefficient of Correlation Between Per Capita Shared Tax and Population Density
4¢ gasoline tax	-.6588
1¢ gasoline tax	-.7174
1/2¢ gasoline tax	-.6526
4¢ special fuels tax	-.7136
1¢ special fuels tax	-.1321
1/2¢ special fuels tax	-.0199
Commercial vehicle tax	-.5308
Bus mileage tax	-.6538
Gross production tax (for roads)	-.1074
Auto and farm truck licenses	-.0925
Gross production tax (for schools)	-.1074
Rural electric co-op tax	-.6933

coefficients are a minus .5 or larger. The implication is that as population density increases, thereby causing an increase in the need for state aid, per capita shared taxes decrease.

The antithesis of the above measurement of need is low population density. When local governments, such as a county, have few people per square mile there is a lack of ability to finance certain public services. If the state wants these services provided it must either finance them itself or aid local governments in providing them. If it is decided that

local governments are to provide particular services, with help from the state, regardless of efficiency, then it must be recognized that low population density is a measurement of need. If need is determined by low population density then aid in Oklahoma is being distributed on the basis of need. Therefore, it appears a dilemma has been encountered. On the one hand increasing population is an indication that additional public services are needed. With limitations placed upon local units of government, with respect to taxing, counties with more population per square mile need more state aid than counties with relatively low population density. On the other hand sparsely populated counties need aid to finance services such as highways and schools. Since Oklahoma is generously endowed with sparsely populated counties it appears that per capita shared taxes will increase as population density decreases. In the meantime counties with high, and increasing, population per square mile will find it more difficult to finance a given level of public services.

Shared taxes should not favor one segment of the population, vis-a-vis another if both are in equal circumstances:

Shared revenues should not favor a county having a large percent of its population living in rural areas over a county with a large part of its population living in urban areas, other things equal. In order to test this criterion a correlation is made between the percentage of a county's total population which is urban and per capita shared taxes. The coefficient of correlation is +.1318. The coefficient is not significant enough to conclude that there is any correlation. The conclusion is that shared taxes do not favor urban over rural counties or vice versa.

The next step is to determine whether a particular shared tax favors one segment of the population vis-a-vis another. In Table XII the coefficients of correlation are recorded between each per capita shared tax and the percentage of the population of a county which is urban. The coefficients of correlation presented in Table XII are all insignificant. Not one of the twelve shared taxes favor one county over another whether it be urban or rural.

TABLE XII

COEFFICIENTS OF CORRELATION BETWEEN PER CAPITA SHARED TAXES AND PERCENTAGE OF THE POPULATION OF A COUNTY WHICH IS URBAN

Shared Tax for Fiscal Year 1957	Coefficient of Correlation Between Per Capita Shared Taxes and Percentage of The Population of a County Which Is Urban
4¢ gasoline tax	+.1463
1¢ gasoline tax	+.1517
1/2¢ gasoline tax	+.1397
4¢ special fuels tax	+.0805
1¢ special fuels tax	+.1578
1/2¢ special fuels tax	+.1343
Commercial vehicle tax	+.1424
Bus mileage tax	+.1508
Gross production tax (for roads)	-.0216
Gross production tax (for schools)	-.0216
Auto and farm truck licenses	-.0103
Rural electric co-op tax	+.1768

The conclusion is that neither the total shared tax program nor each individual shared tax favors one segment of the population over the other. Therefore, since it was established in Chapter II that the total state aid program favors rural over urban counties this must be a function of the grants-in-aid program.

Grants-in-Aid

In the first part of this section grants-in-aid are examined within the framework of the criterion that state aid should be granted to local governments on the basis of need. Fiscal ability, as developed in Chapter II, is used as one measurement of need. The other measurement of need is population density. However, since grants-in-aid are only apportioned to local governments to assist in financing public school education, different population density figures are used here as compared to those used elsewhere in this study. The need for state aid, on the part of local governments, is particularly related to one segment of the population, school-age children. The following method is used to estimate the potential number of school-age children in each county: (1) the number of children under eighteen years of age, in each county, was obtained from the 1960 Census of Population; (2) the number of children under five years of age are deducted from the total obtained under step (1) above. Finally the number of school-age children in each county is divided by its area to obtain the number of school-age children per square mile.

The next criterion to be examined is that grants-in-aid should not favor one segment of the population vis-a-vis another, if both are in

equal circumstances. Two general classifications of the population, urban and rural, are used to test this criterion.

Grants-in-aid and the need criterion:

It is assumed that per capita grants-in-aid should decrease as fiscal ability increases if the criterion of need is to be satisfied. In order to test the need criterion, as measured by a county's fiscal ability, the author correlated per capita grants-in-aid with per capita adjusted value of real property[5] for the year 1957. The relationship between fiscal ability and per capita grants-in-aid is presented in Table XIII. The correlation coefficient between fiscal ability and per capita grants-in-aid is -.5315. This coefficient of correlation provides evidence that as fiscal ability increases per capita grants-in-aid decrease or, conversely, as fiscal ability decreases per capita grants-in-aid increase. This evidence supports the proposition that the distribution of grants-in-aid is based upon need.

The second measurement of need used in this section is the population density of school age children. Table XIV presents the relationship between per capita grants-in-aid and population density of children between ages five and eighteen. The coefficient of correlation is -.6733. This correlation coefficient provides strong evidence that per capita grants-in-aid decrease as the population density of school-age children increases. Such information appears to support the proposition that grants-in-aid are not apportioned to local governments on the basis

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[5]See Chapter II for a detailed discussion concerning the justification of using per capita adjusted value of real property as the determinant of a county's fiscal ability.

TABLE XIII

CORRELATION OF PER CAPITA GRANTS-IN-AID AND PER CAPITA ADJUSTED VALUE OF REAL PROPERTY

Per Capita Grants-in-Aid	Total Counties	Per Capita Adjusted Value of Real Property													
		200 : 399.9	400 : 599.9	600 : 799.9	800 : 999.9	1000 : 1199.9	1200 : 1399.9	1400 : 1599.9	1600 : 1799.9	1800 : 1999.9	2000 : 2199.9	2200 : 2399.9	2400 : 2599.9	2600 : 2799.9	2800 : 2999.9	3000 : 3199.9	3200 : 3399.9
45-49.99	1		1														
40-44.99	7	2	3	2													
35-39.99	5	1	1	2			1										
30-34.99	7	1	2	2	1		1										
25-29.99	5		2	2	1												
20-24.99	8		2	1	1	3		1									
15-19.99	14		2	5	3	1	2	1									
10-14.99	10		1	4	3				1		1						
5- 9.99	12		2	2	2	2		1	1						2		
0- 4.99	8			1	1	2			1		2					1	

TABLE XIV

CORRELATION OF PER CAPITA GRANTS-IN-AID AND POPULATION DENSITY OF CHILDREN BETWEEN AGES FIVE AND EIGHTEEN

Per Capita Grants-in-Aid	Total Counties[a]	Population Density of School-Age Children											
		0.0 : 1.9	2.0 : 3.9	4.0 : 5.9	6.0 : 7.9	8.0 : 9.9	10.0 : 11.9	12.0 : 13.9	14.0 : 15.9	16.0 : 17.9	18.0 : 19.9	20.0 : 21.9	22.0 : 23.9	24.0 : 25.9
45-49.99	1			1										
40-44.99	7		2	3	1	1								
35-39.99	5	2	1	2										
30-34.99	7		4	1	2									
25-29.99	5			1	3	1								
20-24.99	8	1	3	1	1		1	1						
15-19.99	14		2	5	2	1	1	1	1		1			
10-14.99	10	2		4	1	1	1				1			
5- 9.99	12	1	5			1	1	2		1				1
0- 4.99	6	3	1		1		1							

[a]Tulsa and Oklahoma counties have been omitted.

of need. However, additional factors must be considered in the case of grants-in-aid for education. As school districts become larger the average cost of providing educational services are apt to decrease; therefore, the need for state aid declines. As school districts increase in size the student-teacher ratio is higher and, at least for a certain range, this means more efficient use of teachers and decreasing costs per student. Furthermore, the physical plant has to be a certain minimum size. For example, a standard size gymnasium has a high average cost when only a few students use the facility. In counties where the population density of school-age children is low, average transportation costs are high due to the long distances which must be traveled. Likewise, the roads in rural areas are not likely to be as free from roughness as city roads and thereby repair costs on school buses are increased. This situation, in turn, increases the average cost of transportation. Therefore, on the basis of the above analysis it is assumed that counties with a low population density of school-age children, which results in high average educational cost, are more in need of state aid than counties having a high population density of school-age children.

However, an increase in the average cost curve will take place when density of school-age children becomes congested. Increasing average costs are likely to happen only in two counties, Oklahoma and Tulsa. Since these counties have been omitted from the computations in Table XIV, the problem of congestion disappears. Therefore, it is concluded that grants-in-aid for education are based upon need when the latter is measured by population density of school-age children.

Grants-in-aid should not favor one segment of the population vis-a-vis another if both are in equal circumstances:

Grants-in-aid should not favor a county having a large percent of its population living in rural areas over a county with a large part of its population living in urban areas, other things equal. In order to test this criterion, a correlation is made between the percentage of a county's population which is urban and per capita grants-in-aid. This information is presented in Table XV. The coefficient of correlation is -.6752. Such a correlation suggests that grants-in-aid favor counties with high rural to urban population and, therefore, favor one segment of the population vis-a-vis another. However, it is not possible to satisfy the criterion that grants-in-aid should not favor one segment of the population vis-a-vis another and at the same time fulfill the criterion of need when the latter is measured by population density of school-age children. In rural counties the population density of school-age children is low. Therefore, per capita grants-in-aid will be higher in these counties than in those with high urban to rural population.

It is concluded that the criterion which states that state aid should not favor one segment of the population vis-a-vis another is violated by the grants-in-aid program. However, the reason for this violation stems from satisfying the need criterion.

Summary

The purpose of this chapter is to examine shared taxes and grants-in-aid as separate parts of the state aid program with respect to the following questions:

TABLE XV

CORRELATION OF PER CAPITA GRANTS-IN-AID AND PERCENTAGE OF THE POPULATION OF A COUNTY WHICH IS URBAN

Per Capita Grants-in-Aid	Total Counties	Percentage of Population of County Which is Urban									
		0.0:9.9	10.0:19.9	20.0:29.9	30.0:39.9	40.0:49.9	50.0:59.9	60.0:69.9	70.0:79.9	80.0:89.9	90.0:99.9
45-49.99	1						1				
40-44.99	7	2	2	1		1	1				
35-39.99	5	1		2			1				
30-34.99	7	2			1			2			2
25-29.99	6	1				2			2	1	
20-24.99	8	2			2	2	1		1		
15-19.99	15	3	1	2	2	1	3	1	2		
10-14.99	9	2		1		2	1	3			
5- 9.99	12	4		2	3		2	1			
0- 4.99	7	2			2		1	1	1		

1. Are shared taxes and grants-in-aid distributed to local governments on the basis of need?
2. Do shared taxes and grants-in-aid favor one segment of the population vis-a-vis another?

The evidence examined in this chapter suggests the following answers to the questions outlined above:

1. Shared taxes are not apportioned to local governments on the basis of need. The coefficient of correlation between fiscal ability, as measured by per capita adjusted value of real property, and per capita shared taxes is +.7577. The greater a county's fiscal ability the more shared taxes, per capita, it

receives. The coefficient of correlation between population density and per capita shared taxes is -.6284. The greater the population density of a county the smaller amount of shared taxes, per capita, it receives.

2. Grants-in-aid are apportioned to local governments on the basis of need. The coefficient of correlation between fiscal ability, as measured by per capita adjusted value of real property, and per capita grants-in-aid is -.5315. The greater a county's fiscal ability the smaller the amount of grants-in-aid, per capita, it receives. The coefficient of correlation between the population density of school-age children and per capita grants-in-aid is -.6733. The higher the population density of school-age children the smaller the amount of grants-in-aid, per capita, a county receives. Since low population density of school-age children means high average costs of education, it is concluded that counties with low population density of school-age children are more in need of aid than counties with a higher population density of school-age children.
3. There is no empirical evidence which supports the proposition that shared taxes favor counties with high rural to urban population or vice versa. When per capita shared taxes are compared with the percentage of the population of a county which is urban, the coefficient of correlation is +.1318.
4. The grants-in-aid program favors counties with high rural to urban population. When per capita grants-in-aid are correlated with the percentage of the population of each county which is urban, the coefficient is -.6752.

CHAPTER IV

SUMMARY AND CONCLUSIONS

There are two basic reasons local governments are unable to provide public services, such as highways and education, at levels acceptable to the state as a whole: (1) tax and debt limitations placed upon them by the state; (2) their lack of economic ability. Therefore, in order to supply the quantity of these services desired by the state one or more of three courses of action can be taken: (1) the desired level of services may be financed and administered by the state; (2) consolidation of local units of government may be required; (3) the state may extend financial aid to local governments. Since state aid is of such magnitude in Oklahoma it has been assumed, for the purpose of the present study, that the electorate has accepted aid as a desirable alternative to the assumption of local services by the state and/or consolidation of local units of government.

It has been the purpose of this thesis to develop several criteria and examine the state aid program within their framework. These criteria are: (1) state aid should be granted to local governments on the basis of need; (2) state aid should promote equalization of tax effort and services within the state; (3) state aid should not favor one segment of the population vis-a-vis another segment if both are in equal circumstances; (4) state aid should promote neither fiscal irresponsibility nor inefficient levels of government.

Several quantitative measures were used in the foregoing study to test the hypothesis that state aid is distributed to local governments on the basis of the four accepted criteria. Population density and fiscal ability (as measured by the per capita adjusted value of real property) were used to test the criterion of need. Tax effort, education expenditure, and highway expenditure indices were developed in order to examine the equalization criterion. State aid was examined in relation to urban and rural population of each county in order to test the criterion that aid should not favor one segment of the population vis-a-vis another, other things equal. Assessment ratios and average property tax rates were correlated with per capita state aid in order to test the criterion that aid should not promote fiscal irresponsibility on the part of local governments.

Conclusions

In the foregoing study state aid was investigated within the framework of the accepted criteria. In Chapter II the aggregate state aid program was discussed. The two components of state aid, shared taxes and grants-in-aid, were examined separately in Chapter III. The total state aid program was examined within the framework of all four criteria. However, shared taxes and grants-in-aid were investigated within the framework of two criteria: (1) state aid should be granted to local governments on the basis of need; (2) state aid should not favor one segment of the population, vis-a-vis another, if both are in equal circumstances.

On the basis of the method used in the foregoing study, and subject to the limitation involved therein, this thesis revealed the following information.

Aggregate state aid:

1. State aid does not satisfy the criterion of need. By using fiscal ability as one measurement of need it was discovered that per capita state aid increases as fiscal ability increases. The coefficient of correlation between per capita state aid and fiscal ability is +.3934. In other words, counties with greater fiscal ability receive relatively more state aid per capita. The other measurement of need used in this study was population density. It was assumed that greater aid per capita should go to the more densely populated areas. However, the opposite is true in Oklahoma. The correlation coefficient between per capita state aid and population density is -.7517. This correlation coefficient suggests that the greater population density a county has the less per capita state aid it receives.
2. Most of the evidence presented in this thesis indicates that state aid does not bring about equalization of services and/or tax effort among counties of the state. A tax effort index was determined for each county by dividing its tax index by its index of fiscal ability. The tax effort index for the state is equal to one. The dispersion of the tax effort index above and below one exemplifies the degree of

equalization of tax effort. The coefficient of variation for the tax effort index is equal to 36 percent. This amount of dispersion indicates that equalization of tax effort could be improved upon. In order to determine the degree of equalization of services, education and highway expenditure indices were computed for each county and then compared to the state index of one. The coefficient of variation for per capita education expenditure indices is 29.3 percent. On the other hand, the coefficient of variation for per capita highway expenditure indices is 81.7 percent. It is evident that state aid promotes considerably more equalization of education expenditures than highway expenditures.

3. State aid favors counties with high rural to urban population. The percentage of the population of a county which is urban was correlated with state aid. The correlation coefficient between per capita state aid and the percentage of the population of a county which is urban is -.742. This correlation coefficient suggests that state aid favors rural over urban counties.

4. There is some evidence that state aid may cause fiscal irresponsibility on the part of local governments. If local governments are to be fiscally irresponsible, because of state aid, they would reduce property tax rates and/or decrease the assessment of property as aid increases. The average property tax rate was correlated with per capita state aid for each of the counties in Oklahoma. The correlation coefficient is -.30675. However, if six counties showing unusual dispersion

from the regression line are omitted the negative correlation increases to -.48652. This evidence indicates that larger state aid payments may cause the county to lower its property tax rate. On the other hand, there is little evidence that state aid causes local units to reduce assessments. When real property assessment ratios are compared to per capita state aid for each county the correlation coefficient is -.066.

5. There is no strong empirical evidence supporting the thesis that state aid causes the extension, or retards the elimination of, inefficient levels of government. However, the *a priori* reasoning presented in this study leads one to believe that state aid helps maintain less efficient governments. If state aid were eliminated entirely it is evident that many of the inefficient levels of government would have to be suspended. Without state aid the financial burden on the local population would be too great to support many small units of government.

Shared taxes:

1. Shared taxes are not apportioned to local governments on the basis of need. The coefficient of correlation between fiscal ability, as measured by per capita adjusted value of real property, and per capita shared taxes is +.7577. This coefficient indicates that the greater a county's fiscal ability the more shared taxes, per capita, it receives. The coefficient of correlation between population density and per capita shared taxes is -.6284. In other words, the greater the

population density of a county the smaller the amount of shared taxes, per capita, it receives.

2. There is no empirical evidence which supports the proposition that shared taxes favor counties with high rural to urban population or vice versa. When per capita shared taxes are compared with the percentage of the population of a county which is urban the coefficient of correlation is +.1318. This coefficient is not of significant magnitude to suggest that shared taxes favor either rural or urban areas.

Grants-in-aid:

1. Grants-in-aid are apportioned to local governments on the basis of need. The coefficient of correlation between fiscal ability, as measured by per capita adjusted value of real property, and per capita grants-in-aid is -.5315. In other words, the greater a county's fiscal ability the smaller the amount of grants-in-aid, per capita, it receives. On the other hand, the coefficient of correlation between the population density of school age children and per capita grants-in-aid is -.6733. This coefficient indicates that the higher the population density of school age children the smaller the amount of grants-in-aid, per capita, a county receives. Since low population density of school age children means high average costs of education it is concluded that counties with low population density of school age children are more in need of aid than counties with a higher population density of school age children.

2. Grants-in-aid favor counties with high rural to urban population. When per capita grants-in-aid are correlated with the percentage of the population of each county which is urban the coefficient is -.6752. This coefficient indicates that per capita grants-in-aid decrease as the percentage of the population of a county which is urban increases.

Recommendations

Of the total expenditure by the state, in fiscal 1960, approximately 25 percent was allocated to state aid for local governments. Because of the magnitude of state aid the method of allocating it is of extreme importance. When funds are transferred from one area to another the population of the area from which revenues are being transferred should be assured their funds are used to accomplish specifically defined ends. This is not the case in Oklahoma.

State aid, as it exists in Oklahoma, has grown up in a rather haphazard manner. When local units have wanted more aid the rurally dominated legislature has allocated an increasing percentage of a tax which is already earmarked or earmarked a tax which was previously used by the state alone. Such practices have been followed without considering how the overall state aid program is affected. Very little effort has been made to assure the population of Oklahoma that the state aid program satisfies any economic criteria. Therefore, several policy recommendations can be made on the basis of the foregoing study.

It is suggested that continuing research be carried on by the Oklahoma Tax Commission with respect to the state aid program in

Oklahoma. The research should provide the legislature with an overall view of the state aid program as well as information about its various parts. The research should provide answers to the following questions:

1. Is state aid granted local governments on the basis of need?
2. Does state aid promote equalization of tax effort and services within the state?
3. Does state aid favor one segment of the population vis-a-vis another?
4. Does state aid promote fiscal irresponsibility?
5. Does state aid cause the extension, or retard the elimination of, inefficient levels of government?

It is assumed that with such information the legislators can make more intelligent decisions with respect to state aid. However, such decisions cannot be made within the present framework, therefore, several changes should be made.

First of all the method of assessing real property should be changed. In order to distribute aid on the basis of need it is necessary to know the local government's ability to provide acceptable levels of public services. Since local governments have been limited primarily to the property tax, as a local source of revenue, it is imperative that the true value of real property be known. Assessment practices vary from county to county, therefore, it is suggested that real property assessment be conducted by the state. It is also important that well trained assessors be used in assessing real property. Once the local government's true ability to provide public services is known by the legislators it is assumed that they will adjust state aid so that it will be allocated on the basis of need.

The criterion that state aid should promote equalization will be more nearly satisfied if state aid is allocated to local governments according to their fiscal ability. If per capita state aid increases as fiscal ability decreases state aid will not only be distributed on the basis of need but it will also promote equalization of tax effort and service offerings throughout the state.

It was established in this study that grants-in-aid satisfy the criterion of need to a greater extent than shared taxes. Therefore, the indiscriminate allocation of shared taxes should be discontinued in favor of a more well planned program. Fiscal ability, as determined by centrally assessed value of real property, should be the basis for the allocation of shared taxes.

Reapportionment of the State Legislature is needed if the criterion that state aid should not favor one segment of the population, vis-a-vis another, is to be satisfied. With a more proportionate representation between urban and rural areas it is assumed that legislative decisions, with respect to state aid, will be made to benefit the state as a whole rather than to favor one segment at the expense of another.

State aid should be distributed to local governments on the condition that inefficient units of government will be eliminated. In order for this to be accomplished it is necessary to define efficient and inefficient levels of government. Oklahoma should promote research by the many competent economists, political scientists, and educators within the state so that inefficient levels of government in Oklahoma may be determined. It should be recognized that certain sparsely populated areas of

the state will have to continue operating inefficient units of government. However, with close supervision such units of government can be kept to a minimum.

It would be more difficult for local governments to be fiscally irresponsible if real property were assessed by the state. However, since determining property tax rates will be left in the hands of local governments, it is necessary for the state to determine an acceptable minimum tax rate as a condition for state aid.

There are those who will argue that the program suggested by this thesis places too much dependence upon the assumed wisdom of an elected legislature. They will suggest that more reliance should be placed upon shared taxes and other means which are not so closely regulated by the legislature. A good portion of state aid, as it exists in Oklahoma today, is based upon programs which are not easily controlled by the legislature and it has been demonstrated that such programs do not satisfy a number of important economic criteria. Therefore, it is concluded that if there is proportionate representation in the legislature from rural and urban areas, assuming this representation is informed as was suggested above, and the electorate demands sound performance from their legislators the state aid program can be improved.

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APPENDIX A

TAX AND DEBT LIMITATIONS PLACED UPON LOCAL GOVERNMENTS BY THE STATE

The dependence of local units of government upon the state for financial assistance stems from the constitutional and statutory limitations placed upon local government's power to tax and borrow. It is the purpose of this section to review these limitations.

The constitution confers the general power of taxation upon the legislature. "The Legislature shall provide by law for an annual tax sufficient, with other resources, to defray the estimated ordinary expenses of the State for each fiscal year."[1] In turn, the legislature is given the power to confer broad taxing authority upon local governments. "The Legislature shall not impose taxes for the purpose of any county, city, or town or other municipal corporation but may by general laws, confer upon the proper authorities. . . the power to assess and collect such taxes."[2] The constitution does not limit the legislature with respect to the type of taxes it may authorize local governments to levy. Theoretically, the legislature may grant taxing authority to local units of government comparable to that possessed by the state.[3]

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[1]Oklahoma, Constitution, Art. 10, sec. 2.

[2]Ibid., sec. 20.

[3]H. V. Thornton, An Outline of Oklahoma Government (Norman, 1956), p. 129.

Even though the legislature may allow local governments to levy any of a number of taxes in practice they have been confined to the property tax, with a few exceptions involving cities and towns.

Property Tax Limitations

The power of local units to use the property tax has been restricted by constitutional provisions. First of all certain property is exempt from taxation.

> All properties used for free public libraries, free museums, public cemetaries, property used exclusively for schools, colleges, and all property used exclusively for religious and charitable purposes, and all property of the United States, and of the State; household goods of the heads of families, tools, implements, and livestock employed in the support of the family, not exceeding one hundred dollars in value, and all growing crops, . . . all fraternal orphan homes, and other orphan homes, together with all their charitable funds. . . and such property as may be exempt by reason of treaty stipulations, existing between the Indians and the United States government.[4]

The legislature is also permitted to authorize any city or town to exempt manufacturing establishments and public utilities from municipal taxation for a period not to exceed five years.[5]

The constitution does not explicitly exempt any part of the assessed valuation of homesteads from taxation but it opens the door for statutory limitation by stating that "nothing in this constitution shall be held, or construed, to prevent the classification of property for taxation. . ."[6] Therefore, from 1936 on, homesteads are exempt from all forms of ad valorem taxation to the extent of $1,000 of the assessed valuation.[7]

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[4]Oklahoma, Constitution, Art. 10, sec. 2.

[5]Ibid.

[6]Ibid., sec. 22.

[7]68 Okla. St. Ann. sec. 34.

The constitution further restricts local government's use of the property tax by limiting the property tax rate. A total of 15 mills may be levied for the general operating costs of all local governments.[8] School districts receive 5 mills and the remainder is apportioned to the county, town, and school district by the county excise board.[9] However, a municipality has no legal recourse if it is not granted a portion of the 15 mill levy.[10] An additional 4 mills is levied in each county for school purposes.[11] The school district, upon certification of need by the board of education of the district, may levy an additional tax which is not to exceed 15 mills.[12] The school district may also make an emergency levy in an amount not to exceed 5 mills when approved by a majority of the electors in the district voting on the question.[13] The electorate in counties, cities, towns, and school districts are allowed to approve an additional levy for the purpose of erecting public buildings. The additional levy cannot exceed 5 mills on assessed value of property located in the territorial jurisdiction of the local units approving the levy.[14] The constitution also provides that in addition to the 15 mill levy,

> counties. . . school districts, cities and towns shall levy sufficient additional revenue to create a sinking fund to be used, first, for the

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[8]Oklahoma, Constitution, Art. 10, sec. 9.

[9]Ibid.

[10]Thornton, p. 130.

[11]Oklahoma, Constitution, Art. 10, sec. 9.

[12]Ibid.

[13]Ibid.

[14]Ibid., sec. 10.

payment of interest coupons as they fall due; second for the payment of bonds as they fall due; third for the payment of such parts of judgments as such municipality may, by law, be required to pay.[15]

An additional levy, not to exceed 1 1/2 mills, may be levied annually by a county for the purpose of maintaining a department of health within the county.[16] Upon the approval of the majority of the qualified voters, an ad valorem tax of not less than 1 mill and not to exceed 2 mills is to be levied by each county for the purpose of establishing and maintaining public libraries and library services.[17]

Local units of government found the use of the property tax restricted to a greater extent in 1953 when a limitation was placed upon the assessed value of real property and tangible personal property. A constitutional amendment provides that real property and tangible personal property is not to be assessed at more than 35 percent of its fair cash value estimated at the price it would bring at a fair voluntary sale.[18]

Debt Limitations

Local units of government are restricted with respect to the amount of debt they may incur. The constitution declares,

no county, city, town, township, school district, or other political corporation, or subdivision of the State, shall be allowed to become indebted. . . to an amount exceeding, in any year, the income and revenue provided for such year, without the assent of three fifths of the voters, thereof. . . nor in cases requiring such assent, shall any indebtedness

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[15]Ibid., sec. 28.

[16]Ibid., sec. 9a.

[17]Ibid., sec. 10a.

[18]Oklahoma, Constitution, Art. 10, sec. 8.

be allowed to be incurred to an amount, including existing indebtedness, in the aggregate exceeding five per centum of the valuation of the taxable property therein. . .[19]

There are a number of exceptions to the above. If a school district has an absolute need they may, with the consent of three fifths of the voters, incur an indebtedness, including existing indebtedness, exceeding 5 percent, but not to exceed 10 percent, of the valuation of taxable property within the school district.[20] Incorporated cities and towns are permitted to exceed the 5 percent debt limit for the purpose of purchasing, constructing or repairing public utilities.[21]

The Supreme Court has ruled that the 5 percent debt limit applies only to net debt.[22] In determining whether the proposed bond issue of a local government will increase its indebtedness beyond the 5 percent limit the proposed bond issue is added to the outstanding bond issue and from this total cash and securities in the sinking fund are deducted. The figure so derived is the net debt of the local government. Therefore, local governments who have reached the 5 percent gross debt limit may issue additional bonds to the extent of assets in the sinking fund.[23]

There are three basic levels of local government, the county, the school district and the city or town.[24] Each local unit is allowed a net

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[19]Oklahoma, Constitution, Art. 10, sec. 26.

[20]Ibid.

[21]Ibid., sec. 27.

[22]Okla. St. Ann. Constitution, Notes of Decisions, Note 9, p. 603, Kirk v. School Dist. No. 24 of Greer County, 108 Okla. 81, 233 P. 596 (1925).

[23]Robert K. Carr, State Control of Local Finance in Oklahoma, (Norman, 1937), p. 25.

[24]In addition to these three levels, Oklahoma has a number of special districts.

debt limit of 5 percent of the assessed value of taxable property within their respective jurisdictions. Therefore, for the county as a whole the debt limit is 15 percent of the assessed value of taxable property within the county.[25]

The county and city may increase their indebtedness beyond the 5 percent limit by issuing special assessment bonds. The Supreme Court has held that the city or county is merely a collection agent for holders of improvement bonds, therefore, such bonds do not become the liability of the local unit.[26]

The trust provides another method by which a local unit of government may circumvent the 5 percent debt limit. The first case involving the use of a trust by a city as a method of evading the 5 percent debt limit was the Oklahoma City Airport Trust Case in 1956.[27] The city of Oklahoma City leased its airports to the Oklahoma City Airport Trust which was a charitable trust created for the purpose of enabling the city to issue bonds, through the trust, and use the proceeds to construct buildings and enlarge airport facilities. The buildings and airport facilities were to be leased to the United States government. Such an arrangement was challenged as being in violation of the constitutional debt limitation placed on local governments. The court said that even though the:

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[25]There are special cases in which the aggregate debt limit for the county may exceed 15 percent of the assessed value of taxable property within the county. School districts may increase their net debt to 10 percent of the assessed value of taxable property within the school district and cities or towns may exceed the 5 percent limit to construct public utilities.

[26]City of Beggs V. Kelly, 238 P. 466, 110 Okla. 274, (1925).

[27]Morris V. City of Oklahoma City, Okla., 299 P. 2d 131 (1956).

trustees of a trust for furtherance of public purposes are by law a state agency, indebtedness incurred by them and payable solely from trust estate and its revenues is not violative of the constitutional section prescribing procedure for raising and limitations on public indebtedness.[28]

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[28]Ibid.

APPENDIX B

TAX LIMITATIONS PLACED UPON MUNICIPALITIES BY THE STATE

Cities and towns commonly receive very little of the 15 mills levied by the excise board for support of the daily operation of local government.[1] Therefore, cities and towns have turned to other sources of revenue. Their largest source of revenue comes from municipally provided services such as water supply, garbage disposal and in many cases light and power supply.[2] In addition to charges for municipally provided services, cities and towns are permitted to impose a number of taxes such as a road tax, poll tax, occupation and license tax, taxi license tax, dog tax and a franchise tax of two percent of the gross proceeds of privately owned public utilities.[3]

Home Rule

The "home rule" provision in the constitution attempts to extend local autonomy to cities and towns. The constitution provides that, "any city containing a population of more than two thousand inhabitants

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[1]Thornton, page 131.

[2]Ibid., page 132.

[3]Ibid.

may frame a charter for its own government, consistent with and subject to the constitution and laws of the State."[4] The Supreme Court[5] has stated that the purpose of this section is to, "emancipate the municipal government of cities containing a population of more than 2,000 inhabitants from the control formerly exercised over them by the Legislature."[6] Merrill asserts that:

> the true interpretation is that a home rule charter "is to become the organic law of" the city "government, and is to supersede the laws of the state in conflict therewith, in so far only as they attempt to regulate merely municipal affairs." The solution of the problem of the supremacy of state law over an exercise of municipal power depends on "whether such law pertains to general matters of the state and its government or peculiarly to municipal affairs."[7]

The legislature has the constitutionally delegated taxing power. Therefore, the "home rule" provision has caused the following question to be raised: "Is the power to tax, to levy, to assess and collect for purely municipal purposes subject to the regulation of general state laws concerning taxation or do charters...prevail?"[8]

The Supreme Court has taken two lines of approach on this question. In one series of cases they have taken the view that the charter prevails over general law with respect to taxation for municipal purposes.[9]

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[4]Oklahoma, Constitution, Art. 18, sec. 3a.

[5]Supreme Court as used in this chapter refers to the Supreme Court of the State of Oklahoma.

[6]Okla. St. Ann. Constitution, Notes of Decisions, Note, p. 782; State v. Callahan, 96 Okla. 276, p. 718 (1921).

[7]Maurice H. Merrill, "Constitutional Home Rule for Cities, Oklahoma Version," Oklahoma Law Review, V (May, 1952), 150.

[8]Robert Warren, Jr., "Taxation: Municipal Operation of Public Utilities: Sources of Municipal Revenue in Oklahoma," Oklahoma Law Review, I (May, 1948), 96.

[9]Ibid.

The alternative approach has been to consider general laws of the state to prevail over the municipality's power to tax.[10] The latter has been based upon the reasoning that since the legislature has the power to delegate taxing authority to local units of government it also has the power to place limitations upon such authority.[11]

Inasmuch as the county excise board is not required to apportion any part of the 15 mill levy to cities and towns the latter are forced to search for additional sources of revenue. However, the legislature is the only body having the constitutional power to levy taxes. In turn the legislature may grant the power to levy taxes to local units of government. This raises the question as to the degree of local financial autonomy granted by the "home rule" provision. Therefore, it is necessary to examine some of the court cases, involving "home rule", as they determine the degree of control the state has over municipal finances.

Shortly after the Oklahoma Constitution went into effect the first case involving financial powers of "home rule" cities came before the Supreme Court. The earlier cases involved the power of "home rule" cities to levy and collect property taxes for municipal purposes in a manner different from that provided by the general laws of the state.[12]

In a case in 1913 the Supreme Court decided that even in "home rule" cities the legislature has authority to provide for taxes for the support of functions in which the state has a sovereign interest.[13] In the year

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[10]Ibid.

[11]Ibid.

[12]Merrill, p. 179.

[13]Ibid.

1917 the Supreme Court held that in a situation where the tax is solely for municipal purposes the provisions in the charter, pertaining to such taxes, prevails over state law.[14]

Merrill mentions that the doctrine set forth in these early decisions did not remain effective for any length of time. He says,

> the impracticability of two systems of ad valorem taxes upon property to provide revenue for the maintenance of the police system /here the state has a sovereign interest/ ...on the one hand, and for the support of the office of the mayor /in this case the state does not have a sovereign interest/ ...on the other, needs little demonstration.[15]

If there are two separate methods of imposing and collecting ad valorem taxes upon the same property by different taxing units confusion is the end result.[16]

The Supreme Court reversed the City of Collinsville decision in a 1924 case involving the "home rule" charter provisions of the City of Sapulpa. The charter authorized, "commissioners to provide for a system for assessment, equalization, levy and collection of all municipal taxes."[17] Upon such authorization the Commissioners passed a city ordinance for realizing upon tax liens which was different from state law pertaining to such matters. In ruling on this case the Supreme Court held that taxation is a matter of general state concern and therefore state law must prevail over charter provisions.[18] It was also pointed

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[14]Okla. St. Ann. Constitution, Notes of Decisions, Note 1, p. 790; City of Collinsville v. Ward, 64 Okla. 30, 165 P. 1145 (1917).

[15]Merrill, p. 180.

[16]Ibid.

[17]Ibid.

[18]Carr, p. 113.

out by the Supreme Court that constitutional provisions express a desire that there be uniformity in taxation. Accordingly such an objective is not attainable if "home rule" cities are free to "implement their respective policies upon the subject."[19]

According to Merrill the justification for the Sapulpa decision is that, "ad valorem taxation for any purpose is a state affair removed from control of home rule cities."[20] He contends that the,

doctrine of state supremacy in the field of ad valorem taxation seems sound enough /because/ the makers of the. . . constitution. . . felt. . . the topic was of sufficient importance to insert a specific general limitation on the tax rate for city purposes.[21]

The Sapulpa decision has led city officials to believe cities cannot levy taxes not specifically permitted by the state. The Supreme Court has not clearly defined the power of cities to tax. On one hand the Supreme Court seems to grant cities a great deal of financial freedom. Merrill asserts that,

the Sapulpa decision merely rejects the Collinsville determination in so far as the matter of local control over ad valorem taxation is concerned, leaving the general doctrine of the Collinsville case in effect as to other taxes. This argument is buttressed by the fact that. . . the Sapulpa decision was not effective to oust home rule jurisdiction over special assessments.[22]

On the other hand there are a number of decisions which assume the taxing power of "home rule" cities is to be granted only by the legislature.[23] In the Dickinson and Marler decisions the court held the

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[19]Merrill, p. 181.

[20]Ibid.

[21]Ibid.

[22]Ibid., p. 182.

[23]Ibid., Ex Parte Dickinson, 138 Okla. 266, 280 Pac. 797 (1929); Ex Parte Marler, 140 Okla. 194, 282 Pac. 353 (1929); Farley v. Watt, 165 Okla. 6, 23 P2d 687 (1933); Cain's Coffee Co. v. City of Muskogee, 171 Okla. 635, 44 P. 2d50 (1935).

power of a "home rule" city to levy an occupation tax came from the legislature rather than from the city's charter.[24] In Farley versus Watt the court ruled that a "home rule" city is bound by statutory limitations with respect to levying occupation taxes.[25] In the Cain's Coffee Company decision it was declared that the right of a "home rule" city to tax the occupation of a wholesale grocer must be granted the city by a legislative enactment.[26]

From the above discussion it is apparent that "home rule" cities have only a minimal amount of financial autonomy. The city budget must be submitted to the county excise board for review.[27] The power of the city to assess, levy and collect ad valorem taxes contrary to general laws of the state is questionable. Finally, there have been adverse decisions when the city wished to levy taxes not explicitly granted by the legislature.

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[24]Ibid.

[25]Ibid.

[26]Ibid.

[27]Ryan v. Roach Drug Co., 113 Okla. 130 (1925).

APPENDIX C

LEGAL FRAMEWORK OF SHARED TAXES

The state levies an excise tax of four cents per gallon of gasoline sold. From the total collections 22 percent is transmitted to counties to be used by the county commissioner for the purpose of maintaining county highways and permanent bridges. The revenue is apportioned to counties in the following manner: 40 percent of the total is distributed to the various counties in the proportion which the county road mileage of each county bears to the total state road mileage; 60 percent of the total is distributed to the various counties on the basis of which the population and area of each county bears to the total population and area of the state.[1] Cities and incorporated towns receive 5 percent of the total collections. The apportionment is based upon the percentage which the population of a city or town bears to the total population of all incorporated cities and towns in the state. The cities and towns are required to use the proceeds for the repair and maintenance of streets and alleys.[2]

An additional excise tax of one and one-half cents per gallon of gasoline sold is collected by the Tax Commission. The revenue accruing from the one-half cent tax is apportioned to the counties as follows:

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[1]68 Okla. St. Ann. sec. 659b.

[2]Ibid.

40 percent of the total is apportioned to the counties in the proportion which the county road mileage of each county bears to the total state road mileage; 60 percent of the total is distributed to the various counties on the basis which the population and area of each county bears to the total population and area of the state. The county commissioners are to use the funds for the construction and maintenance of county and township highways, permanent bridges on United State rural free delivery and contract mail routes, and school district bus routes.[3]

The revenue from an additional excise tax of one cent per gallon of gasoline sold is apportioned to the counties for the purpose of constructing permanent bridges and culverts, located on school bus routes and mail routes, and for surfacing rural roads which are school bus routes and mail routes. The basis of distributing the revenue is as follows: one third of the total is distributed on the basis of the proportion the county area is to the total area of the state; one third of the total is distributed on the basis of the proportion the rural population of the county is to the total rural population of the state (rural population is defined as including the population of all municipalities with less than 5,000 population); one third of the total collections is distributed on the basis of the proportion the road mileage in the county is of the total road mileage in the state.[4] The county commissioners are allowed to use the receipts from this source of revenue, when approved by the majority of the commissioners, in matching federal funds for any county highway.[5]

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[3]Ibid., sec. 660c.

[4]Ibid., sec. 699.2.

[5]Ibid.

An excise tax, referred to as a special fuel use tax, of four cents per gallon is levied upon diesel fuel, kerosene, distillate or similar products which may be used to propel motor vehicles. The Tax Commission allocates 24.25 percent to the various counties in the proportion which the population and area of each county bears to the population and area of the state. The funds are to be used by the county commissioners for the purpose of construction and maintenance of county highways and permanent bridges.[6]

An additional special fuel use tax amounting to one and one-half cents per gallon is collected by the Tax Commission. The revenue accruing from one-half cents per gallon tax is distributed to the counties. The Tax Commission distributes 40 percent of the total to the various counties on the basis of the proportion which the county road mileage bears to the total road mileage of the state and 60 percent is distributed to the various counties on the basis which the population and area of each county bears to the total population and area of the state. The funds are used for construction and maintenance of county and township highways and permanent bridges on United State rural free delivery and contract mail route, and school district bus routes.[7]

A "temporary" tax of one cent per gallon on special fuels was levied in 1953. This tax was to expire in 1955. However, the law was amended in 1955 in order to extend the use of the tax.[8] The total receipts from the tax are apportioned to the various counties for construction of

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[6]Ibid., sec. 727.4.

[7]Ibid.

[8]Ibid., sec. 727.5.

permanent bridges and culverts located on school bus routes and for the surfacing of rural roads which are school bus routes and mail routes. The funds are distributed to the various counties as follows: one third of the total collections is apportioned to counties on the basis of the proportion the area of a county is to the total area of the state; one third on the basis of the proportion the rural population (defined as including the population of all municipalities with a population of less than 5,000) in a county is of the total rural population in the state; one third on the basis of the proportion the road mileage in the county is of the total road mileage in the state. The commissioners are authorized to use the funds from the tax, upon a majority consent of the commissioners, to match federal funds aiding farm to market roads.[9]

The state levies a tax on the gross value of certain minerals. The gross production tax is in lieu of ad valorem property taxes. The gross value of asphalt, ores bearing lead zinc, jack, gold, silver, and copper is taxed at a rate of three fourths of one percent. A tax rate of 5 percent is levied on the gross value of petroleum or other crude or mineral oil. The gross value of natural gas and/or casinghead gas is also taxed at the rate of 5 percent.[10] A fraction of gross production tax collections is returned to the contributing counties. The Tax Commission returns 10 percent of total collections to the county from where the revenue was collected for the purpose of constructing and maintaining county highways. An additional 10 percent of the total collections from the contributing county is returned to the county and reapportioned to

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[9]Ibid., sec. 727.6.

[10]Ibid., sec. 821.

the school districts on the basis of average daily attendance. In order to qualify for a share of the gross production tax earmarked for school aid the contributing county must have a majority of its school districts with an average daily attendance of thirteen or more students. In order for school districts to qualify for a share of the gross production tax, returned to the contributing counties, they must make an ad valorem tax levy of 15 mills and maintain twelve years of instruction.[11]

The state taxes the gross receipts received from the sales and distribution of electricity by rural electric co-operatives at the rate of 2 percent.[12] From the total collections 95 percent is apportioned to the counties in which the remitting co-operative owns property. The basis for apportionment is the proportion which the number of miles of electrical distribution line of the co-operative in a county bears to the total number of miles of lines owned and operated by the co-operative within the state. The county treasurer in turn distributes the receipts to school districts according to the proportion the number of miles of line owned and operated by the co-operative within the school district bears to the total number of miles of line owned and operated by the co-operative within the county.[13]

The Tax Commission apportions 95 percent of auto and farm truck license fees to the counties, where collected, for the support of common schools in the county. The county treasurer apportions the receipts to the various school districts within the county on the basis of average

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[11]Ibid., sec. 827.

[12]Ibid., sec. 863.

[13]Ibid., sec. 866.

daily attendance provided the school district makes an ad valorem tax levy of 15 mills and maintains twelve years of instruction.[14]

From the revenue of the commercial vehicle licenses and bus mileage tax 55 percent is apportioned to counties for roads and 25 percent is distributed to cities and towns. The fraction earmarked for roads is dispensed to the counties as follows: 40 percent of the sum is distributed to the various counties in the proportion which the county road mileage of each county bears to the total state road mileage; 60 percent of the sum is distributed to the various counties on the basis which the population and area of each county bears to the total population and area of the state. The revenue is used by the counties for the construction, improvement or repair of highways. However, the county treasurer is required to deposit a portion of the receipts in a sinking fund for the retirement of interest and annual accrual of indebtedness created by the issuance of county or township bonds for road purposes. Not more than 40 percent of the receipts is to be used in this manner.[15] The fraction earmarked for cities and towns is distributed to the counties who in turn reapportion the receipts to cities and towns. The counties receive their share on the basis of the proportion which each county's population bears to the population of the state. The county treasurers reapportion the revenue to the cities or incorporated towns on the basis which the population of the cities and incorporated towns bears to the total city and incorporated town population of the county. The cities and towns are required to use the funds for the construction, maintenance, improvement,

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[14]70Okla. St. Ann. sec. 22.2.

[15]Ibid.

and lighting of streets and alleys. Upon the approval of the county excise board the cities and towns may transfer any surplus in the street and alley fund to the general revenue fund whenever an emergency exists in the latter.[16]

An excise tax is imposed upon all alcoholic beverages imported or manufactured in the state. Of the total amount collected from this tax, 32.33 percent is apportioned to the counties. The county treasurer in turn apportions the receipts to the various cities and towns within the state. There are no conditions attached to the revenue from the excise tax. The cities and towns may use the receipts as they see fit.[17]

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[16]Ibid.

[17]Session Laws of Oklahoma, 1959, p. 171.

APPENDIX D

LEGAL FRAMEWORK OF GRANTS-IN-AID

Grants-in-aid are used exclusively to help finance primary and secondary education throughout the state. School districts receive a share of the gross production tax, the rural electric co-operative excise tax and auto and farm truck license fees. In addition each county receives revenue appropriated by the legislature for the following purposes: vocational education; special education; free text books; orphan tuition; state basic and equalization aid.

Vocational education is financed from federal, state and local funds. The federal government requires that for every dollar of federal funds spent on vocational education a matching dollar must come from state or local funds or a combination of both.[1]

> Vocational education under the Federal Acts and the State Act of acceptance is administered in accordance with state plans submitted by the State Board for Vocational Education, which must be approved by the U. S. Office of Education in order to provide for continuance of Federal funds.[2]

The state grants aid to school districts if they conduct a special education program. School districts may organize special classes for

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[1]The Twenty-Eighth Biennial Report of The State Department of Education of Oklahoma, 1960, p. 68.

[2]The Twenty-Seventh Biennial Report of The State Department of Education of Oklahoma, 1958, p. 134.

mentally retarded children when as many as five eligible children reside within the district.[3]

The board of education is allowed to organize special classes when ten or more educatable mentally retarded children live in the district.[4] Special classes may be offered for all types of physically handicapped children when five or more such children live in a school district.[5] The money appropriated by the legislature to carry on a special education program is apportioned by the State Board of Education on a teaching unit basis in accordance with rules and regulations adopted by the board.[6] The teaching unit is to consist of no less than ten children, in classes for educatable mentally handicapped children, or five children in classes for other exceptional children.[7] Each school district is allowed, for each teacher teaching exceptional children, an amount equivalent to 75 percent of the amount that is allowable for the salary of the teacher in the minimum program for state equalization aid purposes.[8] If the school district does not qualify for state equalization aid it is allowed 50 percent of the amount which is allowable for the salary of the teacher in the minimum program for state equalization aid purposes. The amount to be paid to school districts for special education is in

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[3]The Twenty-Eighth Biennial Report of The State Department of Education of Oklahoma, 1950, p. 26.

[4]Ibid.

[5]Ibid.

[6]School Laws of Oklahoma, 1959, p. 75.

[7]Ibid.

[8]Ibid.

addition to other state aid for which the district may qualify.[9] Other appropriations to school districts providing special education include: $2,500 for physical and occupational therapists; $3, for the teacher, per child taught for each home visit; six cents a mile for teacher travel; $300 per pupil per year for home to school telephone or intercommunication system.[10]

A system of free text books was established by the Oklahoma Legislature in 1948. The free text book appropriation by the legislature is divided by the total enrollment in the state to determine the per capita allotment for each child.[11] The amount allowed each school district is based upon the number of pupils enrolled the preceding school year:[12]

> The control of the education of all children in the State of Oklahoma, now located in or in control or custody of any orphanage, charitable institution or organization. . . not making provision for the education of the children under its care or control, from funds derived privately and not derived from public taxation, is hereby vested in the local board of education wherein such orphanage, charitable institution or organization is located.[13]

The state provides the money for educating orphan children in the public schools in which the orphanage, not providing schooling, is located.[14]

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[9]Ibid.

[10]Ibid.

[11]The Twenty-Eighth Biennial Report of The State Department of Education of Oklahoma, 1960, p. 51.

[12]School Laws of Oklahoma, 1959, p. 89.

[13]10 Oklahoma St. Ann. Sec. 151.

[14]Ibid., sec. 153.

The appropriation by the legislature for vocational education aid, special education aid and free text books for the fiscal year 1959-60 was $628,778.47, $499,345.05 and $1,472,868.60 respectively. The total for these three programs was $2,610,992.12. However, the total appropriation by the legislature for all school aid amounted to $44,476,281.26. State aid for vocational education, special education and free text books amounted to only about 6 percent of the total state aid appropriated by the legislature for the fiscal year 1959-60. The other 94 percent of the appropriations was for state basic, operational and equalization aid.[15]

It has been a practice of long standing for the State of Oklahoma to provide state aid for schools. The state began issuing state aid in 1919 when it appropriated $100,000 for needy schools in the state. In 1927 the legislature created the state equalization fund. In the same year it was provided that one quarter of the gross production tax on oil and natural gas, not to exceed $1,500,000 was to be apportioned to the state equalization fund. In 1935 the amount contributed by the state for equalization increased to $8,200,000 per year. In 1937 this amount was increased to $12,800,000 per year. Since that time the legislature has appropriated sufficient funds to guarantee a minimum program for all schools in the state.[16]

The twenty-second session of the Oklahoma Legislature passed House Bill number 120 which is the basis for the present equalization program.[17]

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[15] The Twenty-Eighth Biennial Report of The State Department of Education of Oklahoma, 1960, p. 341.

[16] R. H. Emans, "State Aid and Public School Finance," Twenty-Fourth Biennial Report of The State Department of Education of Oklahoma, 1952, p. 165.

[17] The Twenty-Third Biennial Report of The State Department of Education of Oklahoma, 1950, p. 158.

The amount of money for which a school district may qualify, under the state equalization aid program, is determined by subtracting the amount of the minimum program income from the cost of the minimum program.[18]

The legislature has defined the minimum program and minimum program income as follows:[19]

I. Minimum program:

A. All items of expenditure from the general fund exclusive of teacher's salaries, transportation, and capital outlay at the rate of twelve cents per pupil per day in attendance during the preceding year. No school district is to receive less than $200 per year per teacher for such a purpose.

B. The basic schedule used as a basis for calculating teachers' salaries in the minimum program is as follows:

1. A teacher with a Bachelor's Degree and no experience is to receive a minimum salary of $3200.00 for the school year 1960-61, $3400.00 for the school year 1961-62 and $3600.00 for each school year thereafter. An additional $100.00 per year increment is allowed for each year of teaching experience but such increment is not to exceed $150.00.

2. A teacher with a Master's Degree is allowed $200.00 above the minimum program salary of a teacher with a Bachelor's Degree.

3. A teacher with a Doctor of Philosophy or a Doctor of Education Degree is allowed $200.00 more than the minimum program salary of a teacher with the Master's Degree.

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[18]70 Okla. St. Ann., sec. 4.

[19]Ibid., sec. 18-4.

C. The administrative increments are as follows:

1. A teacher serving as superintendent receives an increment of $3.00 per teacher per month but not to exceed twenty teachers.
2. A principal or teaching principal's increment is $3.00 per teacher per month, but not to exceed twenty teachers.
3. No school district is granted increments for both superintendent and principal unless the school district can qualify for eight or more teachers and maintains an accredited high school.
4. A school nurse qualifies under the provisions of the minimum program in the same manner as a teacher holding a Bachelor's Degree.

D. Any school district paying less than the minimum salary schedule, regardless of whether it qualifies for state equalization aid or not, will have the difference deducted from state equalization aid, basic aid, operational fund aid, gross production tax receipts, auto license fee receipts, or any other funds which would be paid by the state to the school district.

E. The minimum program for transportation is based upon the average number of transported pupils per square mile in the preceding year as follows:

1. .30; $76.00 per year per pupil
2. .60; $58.00 per year per pupil
3. 1.00; $43.00 per year per pupil
4. 2.00 to 2.99; $36.00 per year per pupil
5. 3.00 to 3.99; $32.00 per year per pupil

6. 4.00 to 4.99; $29.00 per year per pupil

7. 5.00 to 5.99; $26.00 per year per pupil

8. 6.00 to 6.99; $24.00 per year per pupil

9. 7.00 to 7.99; $22.00 per year per pupil

10. 8.00 or more; $15.00 per year per pupil

11. When the density is less than .40 the State Board of Education is authorized to make special adjustments to meet the reasonable, but not to exceed the actual, cost of transportation.

12. A district correction figure is determined by dividing the cost of transportation in the district, for the previous six years, by the minimum program for transportation in the district for the previous six years. The district correction figure is not to exceed 1.25.

    a) The amount of transportation minimum program for each district is determined by multiplying the average number of pupils transported daily during the preceding year by the amount per pupil set out in the foregoing schedule and the resulting product multiplied by the district correction figure.

        (1) For example, suppose the density figure is 3.0 and the average number of pupils transported is equal to 300. Further assume that the district correction figure is equal to .9. The minimum transportation program figure is computed as follows:

            $36.00 x 300 = $10,800.00

            $10,800 x .9 = $9,720.00

            $10,800.00 + $9,720.00 = $20,520.00

F. The total number of elementary teachers in any school district on which the state will pay aid, on the basis of legal average daily attendance, is as follows:

1. In school districts having 15 to 27 pupils; one teacher.
2. In school districts having 28 to 52 pupils; two teachers.
3. In school districts having 53 to 77 pupils; three teachers.
4. In school districts having 78 to 100 pupils; four teachers.
5. In school districts having 100 to 122 pupils; five teachers.
6. In school districts having 122 or more pupils; five teachers are allowed for the first 122 pupils and one teacher for each additional 26 students provided the district employs the additional teachers.

G. The State Board of Education is to declare a school district isolated and approve at least one teacher if the school house is twelve miles, by commonly traveled road from the school house of another district able to provide educational facilities including transportation. The State Board of Education is also to approve at least one teacher for any school district where transportation is provided and the school bus serving the district was able, because of conditions of the road, to travel the school route during the preceding year less than 90 percent of the school days taught.

H. State equalization aid is not calculated for any school district, except as provided for in (G) above, where the attendance was less than fifteen average daily attendance during the preceding year.

I. The total number of teachers in an accredited junior and senior high school on which the state will pay aid, on the basis of legal average daily attendance, is as follows:

1. In school districts having 40 to 54 pupils; three teachers.
2. In school districts having 55 to 72 pupils; four teachers.
3. In school districts having 72 or more pupils; four teachers, for the first 72 pupils, one teacher for each additional 26 pupils.

J. Any high school district having fewer than forty pupils is given state aid for two teachers if the school house is more than twelve miles, by commonly traveled road, from the school house of a district able to provide educational facilities for all high school pupils.

K. Any school maintaining a reimbursed vocational education program receives state equalization aid on the basis of an additional one-half teaching unit for each full time vocational teacher employed.

L. Any isolated accredited high school district in the state, offering twelve years of instruction, receives state aid on the basis of a minimum of three high school teachers.

II. The minimum program income includes the following:

A. The net assessed valuation of property in the school district multiplied by the rate of 15 mills.

1. A 10 percent deduction is allowed from the total for delinquent taxes.

B. The county apportionment which must be at least 5 mills of the 15 mill general purpose levy.

C. The gross production tax.

D. The intangible tax.

E. The state apportionment.

F. The amount of basic aid allocated to the school district by the State Board of Education.

G. The collections from the auto and farm truck license fees during the preceding year computed on a per capita average daily attendance basis.

H. Seventy-five per cent of the amount received by the school district, the preceding year, from the proceeds of the county 4 mill levy.

I. All other revenue which actually was or legally should have been, collected during the preceding year, except the following:

1. proceeds from the sale of property; proceeds from the sale of oil and gas royalties or leases when placed in the sinking fund by resolution; surplus cash; taxes in the process of collection; student laboratory and supply fees; income from athletic contest, plays, programs, and other student activities; tuition for junior college or approved nursery and kindergarten instruction; income from cafeterias and book stores; state aid for special education programs; federal aid to districts for Indian education; federal aid payable under Public Law 874 and 815 of the 81st Congress as amended; federal grants for federal flood control rentals; forest rentals, and submarginal land programs.

If a school district finds the cost of the minimum program is greater than its minimum program income it qualifies for state equalization aid.

The state distributes the amount necessary for the school district to provide a minimum program as defined in the law. If the minimum program income is equal to or greater than the cost of the minimum program the school district does not receive state equalization aid.

The purpose of state equalization aid is to assure at least a minimum level of educational services throughout the state. If a school district is capable of providing a program which is more costly than the minimum prescribed by the state it may do so.

In addition to equalization aid the state apportions basic aid to school districts in the state at the amount of $12.50 times the legal average daily attendance of the previous school year. All school districts providing twelve years of instruction and levying 15 mills on the assessed value of property receive basic aid.[20]

In fiscal year 1959-60 the state began issuing operational fund aid. The operation fund aid was set at $3.50 times the legal average daily attendance for the first year. In the following years operational fund aid increased as follows: $ 4.50 for 1960-61; $6.00 for 1961-62; $8.00 for 1962-63 and thereafter. In order to qualify for operational fund aid the school district must maintain an elementary or high school in the district and it also must levy 20 mills for its general fund.[21]

Both basic and operational fund aid are paid to the school district regardless of whether or not it receives state equalization aid. The basic aid paid to the school district is included in the minimum program

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[20]Ibid., sec. 10-5

[21]Ibid.

income of the school district and thereby reduces the amount of state equalization aid it shall receive. However, the operational fund aid is not included in the minimum program income of the school district.

Permanent school fund

The proceeds from the sale of land granted to the state by the national government and $5,000,000 granted in lieu of land in the Indian Territory constitutes the permanent school fund. The principal of the fund is held in trust by the state. The income accruing from the fund is used for the maintenance of common schools. The income from the fund is apportioned monthly, by the commissioners of the land office, among all the school districts of the state. The apportionment to each county is made in the proportion which the number of children over the age of six years and under the age of twenty-one years living in the county bears to the total number of children between the age of six and twenty-one years living in the state.[22]

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[22]School Laws of Oklahoma, 1959, p. 135.

VITA

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