A STUDY OF THE METROPOLITAN PROBLEMS OF FINANCE OF TULSA, OKLAHOMA, AND PROBLEM SOLVING PROCEDURES

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Bachelor of Arts

Oklahoma State University

Stillwater, Oklahoma

1959

Submitted to the faculty of the Graduate School of
the Oklahoma State University
in partial fulfillment of the requirements
for the degree of
MASTER OF SCIENCE
August, 1961

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ACKNOWLEDGMENTS

I wish to express my appreciation for the advice and assistance received in the preparation of this paper. I owe a debt of gratitude to Dr. Ansel M. Sharp for the constructive criticism, guidance, and encouragement throughout the study; and to the following for assistance in the procurement of data used in the study: Mayor James L. Maxwell; Commissioners Bennie C. Garren, Guy Hall, Jr., and Patrick McGuire; Budget Director Joe Clements; City Auditor William F. Lambert; Donald K. Dean and Robert L. Wegner of the Tulsa Metropolitan Area Planning Commission; and the Tulsa Chamber of Commerce.

To my wife, I owe the success of this entire study for her patient assistance and encouragement from beginning to end.

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CHAPTER I

INTRODUCTION

PURPOSE OF THE STUDY

The purpose of this study is to investigate the metropolitan problems of finance of Tulsa, Oklahoma, to examine the problem solving procedures which may be employed and to recommend a group of procedures which may be used in an overall approach to solving these problems. It is not the intent of the writer to develop a specific approach to solving these problems, but to point out the various alternatives which may be included in such an approach.

The author will attempt to show that certain acute financial problems do exist in Tulsa; that these problems bear a close relation to the rigid limitations placed on municipal taxing power by the state government, to the rapidly increasing metropolitan costs, and to the growth of a suburban fringe area; and, that these problems may be adequately solved by city, county, and state cooperation in using certain problem solving procedures.

The Tulsa metropolitan financial problems have become more acute in a setting of continuing growth of the metropolitan area in population, territorial size, service needs, and governmental complexity. Few of the many problems associated with Tulsa's increasing urbanization are really new, but the problems have become so acute that they have taken precedence over others formerly considered more important and they demand immediate attention. Although these problems exist in virtually all metropolitan situations in Oklahoma, the magnitude and gravity are generally greatest in the most populous areas such as Tulsa.

SIGNIFICANCE OF STUDY

The metropolitan area financial problem, which, in fact, embraces many problems is the number one challenge in the field of public finance. Tremendous demographic and economic changes have created financial requirements which far exceed the capacity of the revenue producing machinery available to metropolitan governments. Inflation, mushrooming urbanization, the steady uptrend of the American standard of living, and a demand for commensurate improvements in government services have resulted in steadily increasing costs of conducting metropolitan government.

These new pressures come at a time when governments in metropolitan areas have still not solved existing problems and are forced to operate within antiquated structures and with severely limited revenue raising powers. A tremendous backlog of needed services exists. There is hardly a metropolitan government in the nation which has adequate revenue to solve its present problems, let alone future ones.

While the cost of operating metropolitan governments has rapidly increased, the sources of income have remained fixed or have diminished. The increasing movement to suburban areas reduces the production and property values against which the city must tax or borrow. In addition to its decreasing tax base, the central city has been forced to subsidize the suburbs by financing services of the city to the suburban population. The suburban governments often fail to provide even fundamental services. The metropolitan area also pays a disproportionately large share of state and county taxes in return for a disproportionately small share of revenue and services.

Metropolitan areas are large in total number and they represent a nationwide rather than a regional development. There were 168 such areas in the continental United States in 1950, comprising territory in forty-two states and the District of Columbia. The 168 standard metropolitan areas comprised only seven per cent of the land area of the continental United States; however, they contained 56 per cent of the 1950 total population. Growth in the suburban fringe has occurred about two and one-half times as fast as that in central cities and has accounted for three-fifths of the total increase in metropolitan area population and one-half of the national population increase.

The significance of metropolitan area financial problems lies not only in the magnitude of people, governments, and money affected; but also in the acuteness of the problems. The most important single problem facing Tulsa and many other metropolitan governments is the need for greater operating revenue with which to meet the rapidly expanding costs of metropolitan government. Tulsa and virtually all metropolitan governments have the potential to meet local government financial requirements. The cost of such government is necessarily expensive because of the variety and character of the facilities and services required under metropolitan conditions; but there is the offsetting factor of large concentrations of industrial and business enterprise and a relatively high level of personal income. However, the ability of municipalities to finance their required services is limited. The most productive taxes have been exploited by the Federal and state governments and some taxes are not particularly suited to use by existing municipal governments. State governments, including Oklahoma, often place rigid restrictions on local taxing powers and many state legislatures have been reluctant to provide municipalities with the powers necessary to raise revenue to meet the continuously rising costs of financing government services. Tulsa and other Oklahoma cities have been forced to extend their limited revenue over a wide range of metropolitan services resulting in a thin minimum of inadequate governmental services. It is possible for most municipalities to restrict their tax burdens only if new facilities and services are deferred and old ones curtailed. However, municipal services are intimately connected with community living, with things which have to be done to permit people to live in close proximity in towns and cities, thus, they must not be curtailed.

DEFINITION OF A STANDARD METROPOLITAN AREA

The definition of metropolitan areas currently in most general use was first applied by the United States Bureau of the Census in 1950. This definition was worked out under the direction of the Bureau of the Budget by the Federal Committee on Standard Metropolitan areas, consisting of representatives from nine national government agencies. The Bureau defines a standard metropolitan area as a "county or group of counties which contains at least one city of 50,000 inhabitants or more. In addition to the county, or counties, containing such a city, or cities, contiguous counties are included in a standard metropolitan area if according to certain criteria they are essentially metropolitan in character, and socially and economically integrated with the central city."[1] This definition was amended in 1958 to include counties contiguous to the county containing the central city, if these counties have a population of 15,000 inhabitants or more and are socially and economically integrated with the central city.

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[1]"Local Government in Metropolitan Areas," State and Local Government Special Studies, Number 36, Bureau of the Census (Washington, D.C., 1954), pp. 1-2.

The Bureau of the Census defines the standard Tulsa Metropolitan Area as Tulsa, Creek, and Osage Counties. The Tulsa Metropolitan area included only Tulsa County until January, 1959, when Creek County was added. Osage County was added in June, 1960, after the Bureau of the Census received the 1960 preliminary census figures. The addition of Osage and Creek Counties was due to the 1958 change in definition of standard metropolitan areas rather than the continuous growth of the Tulsa Metropolitan Area. The scope of this study is limited to Tulsa and Tulsa County, an area which more nearly coincides with the present Tulsa Metropolitan Area.

METHODOLOGY AND SOURCES

Since there is very little published material that would assist this study, the writer relied on field study, having studied and visited the city of Tulsa and the adjacent suburban fringe area and also the various departments of city government. City officials and workers were interviewed regarding the various problems, functions performed, attempts to solve problems, and the effectiveness of the present Tulsa financial structure. The fiscal information in this study was obtained from the annual financial statements of the city of Tulsa and from interviews with city officials.

ORGANIZATION

This study begins with a look at the problems of finance of Tulsa, Oklahoma. The major problems considered are the problems of inadequate general fund or operating revenue, inadequate metropolitan services, heavy reliance on utility profits, and the development of a suburban fringe area. Each problem is discussed in light of the causes for its existence and its effect on the Tulsa metropolitan area. A discussion of Tulsa's financial structure is presented to give an insight into Tulsa's problems and to illustrate how Tulsa's revenues compare with those of other cities.

Next, Tulsa's problem solving efforts are examined and discussed. Although hampered in their efforts by the lack of state enabling legislation, Tulsa and Tulsa County have made constructive attempts to solve the problems of finance facing the city and the metropolitan area. A summary of these efforts is presented.

The financial problems which each metropolitan area faces are varied in type and character, and Tulsa is no exception. However, certain general problems do exist which apply to almost all metropolitan areas and vary in degree only. A study of the problem solving measures applied to these problems aids in the understanding of Tulsa's complex problems. The various types of problem solving procedures are discussed and evaluated as to their usefulness in solving Tulsa's financial problems and a general multiple approach to solving these problems is developed.

CHAPTER II

METROPOLITAN PROBLEMS OF TULSA, OKLAHOMA

An investigation of the problems of finance of Tulsa, Oklahoma, is conducted in this chapter. The most important single problem facing Tulsa is the acute need for greater general fund, or operating, revenue. The rapidly increasing financial requirements of metropolitan government have placed Tulsa in a position where needed expenditures far outnumber their present sources of revenue. The taxing power of Tulsa and other Oklahoma cities is limited and existing sources of revenue have failed to keep pace with governmental needs. The shortage of general fund revenue has caused Tulsa to rely heavily on utility profits, the only productive source of revenue available. This reliance on utility profits has damaged the city's overall tax structure. The shortage of operating revenue has also resulted in an inadequate level of municipal services. The existing deficiencies in municipal services cannot be corrected without a substantial increase in general fund revenue. The growth of a suburban ring around Tulsa has tended to intensify the revenue problem and creates an additional demand for municipal services.

THE REVENUE PROBLEM

Tulsa's primary financial problem is a shortage of general fund, or operating, revenue with which to meet the expanding needs of the city and the metropolitan area. The state government has been unwilling to provide Tulsa and other Oklahoma cities with the taxing powers necessary to raise needed revenue and has also failed to provide Tulsa with any alternative sources of revenue. In contrast, Tulsa's financial requirements have steadily increased. Inflation, mushrooming urbanization, and the assumption of responsibility for new and expanded services and benefits have resulted in a continuously rising cost of government.

An examination of Tulsa's financial structure reveals that Tulsa has three separate types of funds. They are the general fund, the special funds, and the sinking fund. All operating and maintenance expenditures for the city must be paid from the general revenue fund. The five special funds receive funds earmarked for specific purposes. This revenue is used to operate the specified facilities. The sinking fund is provided for the purpose of payment of the principal and interest on the government debt.

Tulsa, like many Oklahoma cities, receives a large amount of revenue (67 per cent of the total 1958-1959 general fund revenue) in the form of revenues from the sale of utility services by the municipally-owned water, sewer, and refuse collection facilities. In the 1958-1959 fiscal year, Tulsa transferred $7,058,216.29 or 83.6 per cent of the total revenue from municipally owned utilities to the general fund.[2]

The reliance of Tulsa and other Oklahoma cities on utility profits is traceable, to a large degree, to the rigid regulation of municipal taxing power. Tulsa, for the past several years, has received only a three-mill general fund property tax levy. This levy is not determined

[2]A city ordinance passed in 1947, requires that "a sum equal to not less than 50 per cent of the annual amounts required by law and necessary to pay the principal and interest on any waterworks and sanitary sewer bonds voted, issued, sold, and delivered after January 1, 1948, shall be apportioned and credited to the sinking fund." Tulsa City Charter, Article 12, Section 10. This amounted to $1,379,006 or 16.4 per cent of total revenue from municipal utilities.

by the city of Tulsa, but by the County Excise Board. The Oklahoma Constitution sets up a maximum of 15 mills that can be levied on any one piece of property by all units of local government for the purpose of providing operating revenue.[3] Five mills of this 15-mill county levy must be allocated to the school districts. The remaining 10 mills is divided between the city and the county by the County Excise Board. Tulsa, during the 1958-1959 fiscal year, received only $826,588 or 7.8 per cent of its general fund revenue from the property tax. This provides only enough revenue to operate the city of Tulsa for twenty-eight days each year. This is in marked contrast with the nationwide pattern of heavy reliance by municipalities upon the property tax.[4]

Tulsa's revenue problem is a shortage of operating revenue rather than a shortage of revenue for capital outlay. The city has been very successful in obtaining approval of bond issues and thus has adequate revenue for capital outlay expenditures. Also the rate of assessment per dollar of assessed valuation has not increased greatly in the last few years and has not exceeded the rates of the years prior to 1950. However,

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[3]Oklahoma Constitution, Article 10, Section 9.

[4]Despite the rise of non-property taxes in many cities, property taxation is still the major local tax revenue. The Bureau of the Census reports that of the total taxes of $6,242 million in 1958, $4,570 or 73 per cent was collected in property taxes. While property tax revenues are relatively less important in some communities than they were a decade or two ago, they still are larger than the revenue from any other source and they are, in general, increasing. Table I indicates the present sources of metropolitan revenue. In 1954, the property taxes amounted to $3.6 billion, or 37.3 per cent of total municipal revenue. In spite of their declining importance in relation to total revenues, the property tax furnished cities with approximately $4.5 billion or 35.6 per cent of total revenue in 1958. This is a larger percentage than the combined total supplied by utility revenue and intergovernmental revenue, the next greatest source of revenue. United States Bureau of the Census, Compendium of City Finances in 1958, p. 6.

revenue raised from the property tax in this manner cannot be used for financing the operating expenditures of the government and thus fails to solve the most acute revenue problem, that of insufficient operating revenue.[5]

TABLE I

REVENUES OF CITIES--FISCAL YEARS 1954 AND 1958

	1954		1958	
	Amount (millions)	Percent	Amount (millions)	Percent
Total Taxes	4,796	50.0	6,242	48.7
Property Taxes	3,585	37.3	4,570	35.6
Sales Taxes	659	6.9	972	7.6
Licenses and other Taxes	552	5.8	700	5.5
Intergovernmental Revenues	1,336	13.9	1,953	15.2
State Aid	1,177	12.3	1,633	12.7
Charges and Miscellaneous	1,195	12.5	1,700	13.3
Utility Revenue	2,016	21.0	2,581	20.1
Insurance-Trust Revenue	246	2.6	352	2.7
Total	9,589	100.0	12,828	100.0

Source: U. S. Bureau of the Census, Compendium of City Government Finances in 1958, p. 6.

In 1958-1959, $3,477,629 was collected from property tax levies to pay the interest and principal on the government debt. When the property tax collections from the sinking fund levies are combined with collections from the general fund levy, they comprise a larger percentage of total revenue than the general fund property tax collections did of the general fund revenue. Tulsa raised 24.42 per cent of total revenue from general and sinking fund levies. However, this figure is still substantially below the national average of 33.6 per cent.

[5] Oklahoma Consitution, Article 10, Section 26.

The only general fund tax which the city of Tulsa is allowed to levy is an annual two per cent levy on the gross receipts from residential and commercial sales of privately owned public utilities.[6] The tax applies only to Oklahoma Natural Gas Company, Public Service Company, and Southwestern Bell Telephone Company; but it provided 6.27 per cent of the total general fund revenue. This was almost as much as the property tax supplied.

Municipal court and traffic violation revenue, parking meter revenue, inspection fees, recreations revenue, and licenses follow in that order as general fund revenue producers. The general fund collections for the period from 1955 to 1959 are shown in Table II. Tulsa received revenue from retail liquor licenses and the state liquor tax for the first time in the 1959-1960 fiscal year. This amounted to $194,508 for the first eleven months of the year.

TABLE II

ANNUAL GENERAL FUND REVENUE COLLECTIONS
BY MAJOR SOURCES; TULSA, 1955-1959

Source	1954-55	1955-56	1956-57	1957-58	1958-59
Property Tax	$665,653	$683,812	$722,254	$765,505	$826,588
Franchise Tax	504,826	540,011	575,223	602,822	632,078
Licenses	87,204	92,398	101,590	102,862	98,910
Parking Meters	406,379	466,851	441,351	443,271	430,631
Municipal Court	382,149	464,275	405,218	480,316	523,976
Utilities Services	6,223,577	7,345,667	6,471,050	6,374,436	7,058,216
Recreation	146,504	159,152	143,010	159,875	173,006
Inspection Fees	369,647	258,830	240,845	282,352	300,515
Other charges for services	104,263	101,724	97,386	85,675	92,667
Revenue from the use of money and property	33,767	55,944	84,614	81,704	72,892
Other	99,452	333,477	241,826	311,134	316,927
Total	$9,023,421	10,501,141	9,524,286	9,687,952	10,526,406

Source: Annual Financial Statements, City of Tulsa.

[6]Oklahoma Constitution, Article 68, Sections 1202-1205.

The city of Tulsa has five special revenue funds set up which receive funds earmarked for specific purposes. The Street and Alley Fund receives revenue from the state commercial vehicles tax and the state motor fuel tax. In the fiscal year ending June 31, 1959, this revenue totaled $450,127. The Fishing and Hunting Fund received revenue from fishing, hunting and boat licenses, and from concessions operated at Spavinaw Lake totaling $19,491. The Municipal Airport Fund received funds from property rentals, sale of engine fuels and lubricants, and federal grants totaling $1,457,496. Federal grants supplied $11,520.31 of this total. The Gilcrease Institute Fund obtained $30,439 during the 1958-1959 fiscal year from oil and gas royalties. The Tulsa Riverside Airport Fund received $177,194 from various sources.

The five special revenue funds provided a total revenue of $2,134,747 in 1958-1959. This revenue must be used for the purposes for which it is earmarked and any surplus at the end of the year remains in the specific fund and cannot be transferred to the general fund revenue. However, the revenue in these special funds is used for operation of specific facilities and thus eases the burden on the general revenue fund to some extent.

Tulsa's largest general fund expense item is utility expenditure. It accounted for 36.72 per cent of total general fund expenditure in the 1958-1959 fiscal year. Police protection required 18.35 per cent of total general fund expenditures while 14.97 per cent was spent on fire protection. The amounts of expenditure by function and the percent of the total general fund expenditures is shown in Table III. The relative importance of these expenditures has not changed substantially in the past five years.

Table IV presents the general fund expenditures of Tulsa by character for the years 1955-1959. Expenditures for personal service accounts are by far the largest share of the total, followed by maintenance and operation. Only a small portion of general fund expenditure is for capital outlay. During the 1958-1959 fiscal year personal service expenditure constituted about 80 per cent of the total while maintenance and operation expenditure amounted to 14 per cent. The remaining 6 per cent was expenditure for capital outlay. Total general fund expenditures increased by 19 per cent during the 1955-1959 period. However, from 1948 to 1959 general fund expenditures increased by over 235 per cent. This large increase in expenditures has been financed by existing sources of revenue. Increases in utility rates and charges for services have financed the greatest part of this increase in expenditures.

TABLE III

EXPENDITURES FROM GENERAL REVENUE FUND BY FUNCTION AND PER CENT OF TOTAL: TULSA, 1958-1959

Function	Per Cent	Amount in Dollars
Utilities	36.72	$3,681,861
Police	18.35	1,840,771
Fire	14.97	1,501,100
Streets	4.52	453,116
Health	2.23	223,691
Libraries	2.47	247,584
Parks and Recreation	4.53	454,157
General Government Buildings	.95	94,811
Tulsa Metropolitan Area Planning Commission	.83	82,796
Engineering and Inspection	3.34	334,564
General Government	7.86	788,080
Other	3.23	323,740
Total	100.00	$10,026,271

Source: Annual Financial Statements, City of Tulsa.

Tulsa finances virtually all of its capital improvements by voting general obligation bonds. During the 1958-1959 fiscal year, general fund expenditures for capital outlay comprised only six per cent of the total general fund expense. Fifty per cent of the annual requirements for payment of the interest and principal on waterworks and sanitary sewer bonds voted after January 1, 1948, is apportioned to the sinking fund with the remainder to be paid from property tax levies. All other capital outlay is financed from property tax levies.

TABLE IV

GENERAL FUND EXPENDITURES BY CHARACTER: TULSA, 1955-1959

Year	Total Expenditure	Personal Services	Maintenance and Operation	Capital Outlay
1958-59	10,026,271	8,032,426	1,604,186	388,659
1957-58	9,299,932	7,572,511	1,583,907	143,513
1956-57	8,891,829	7,094,837	1,687,074	109,917
1955-56	9,484,287	6,710,498	2,634,238	139,450
1954-55	8,557,799	6,327,248	2,117,185	113,366

Source: Annual Financial Statements, City of Tulsa.

THE UTILITY PROFITS PROBLEM

The reluctance of the state government to provide Tulsa with needed general fund taxing powers or revenue, coupled with the rise in expenditures, has forced a great dependence by Tulsa on the utility revenues, charges, and fees in order to finance the provision of services and the operation of government facilities. The acute need for additional revenue has resulted in Tulsa's obtaining large profits on utility facilities. This is a problem in itself because the heavy reliance on utility profits has damaged Tulsa's revenue raising structure. Profits on utilities tend to conceal the actual cost of government as the profits really amount to an indirect tax on utility users, the burden of which is distributed according to the amount of use of the utility, and is difficult to justify under accepted standards of equity. The high rates may hold utility consumption at low levels and a consequent underallocation of resources to utilities and an overallocation to other government activities may result. This problem while not being entirely unique with Tulsa is much more acute in Tulsa than in most cities. Tulsa receives 48 per cent of its total revenue from utilities while the national average for cities as shown in Table I is only 20 per cent. Utility revenue supplies more than two-thirds of Tulsa's general fund revenue.

THE SERVICE PROBLEM

Tulsa's present sources of revenue are very limited while the costs of providing services are constantly rising. Utility rates and charges for services have been pushed to extremely high rates. However, the revenue from existing sources is no longer adequate to meet the expanding needs of the city and the metropolitan area. To extend the limited revenue over the range of required services provides a thin minimum of inadequate functions, the undermaintenance of plant and equipment, and inadequate salaries for worthy employees. The following discussion points out some of the deficiencies which have resulted from a lack of general fund or operational revenue.

The most serious operating problem confronting the water and sewer department is the lack of funds for maintaining buildings, structures, and other facilities, and for the replacement of equipment. During the month of June, 1959, the department was able to purchase five pieces of automotive equipment. Prior to that time no new automotive equipment had been purchased since 1957, and during that year only four pieces of equipment were bought.[7] The same situation exists only to a greater degree, with respect to the department's heavy construction and repair equipment. Figure I shows that of all automotive, heavy construction and repair equipment, almost two-thirds is over five years old, with 25.5 per cent being ten years or more. This equipment is only being maintained in service by excessive maintenance expenditures. The majority of the department's smaller pieces of maintenance equipment, such as pumps, pavement breakers, tapping machines, trench diggers, and portable light plants have also been kept in service beyond their economical life. This has resulted in excessive maintenance costs on this type of equipment.

A serious problem is the need for replacement of over-age meters. There are 15,000 meters older than 30 years and some meters near 50 years of age. A study by the water department of 100 of these over-age meters revealed that the meters let an average of 2,000 gallons per month by without registering it. At the present Tulsa water rates, this would amount to approximately $1 per month. This would pay for the replacement of the meters within two years. The repair of these meters is difficult and expensive, and in many cases it would be impossible to restore them to acceptable adequacy because of excessive wear of component parts.[8]

Ordinary maintenance of buildings, structures, and plants has of necessity been curtailed in recent years for lack of funds. This has caused a backlog of deferred maintenance work that is becoming a serious problem. Many of the department's facilities are badly in need of

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[7]Water and Sewer Department Budget (1960-1961), p. 2.

[8]Ibid, p. 4.

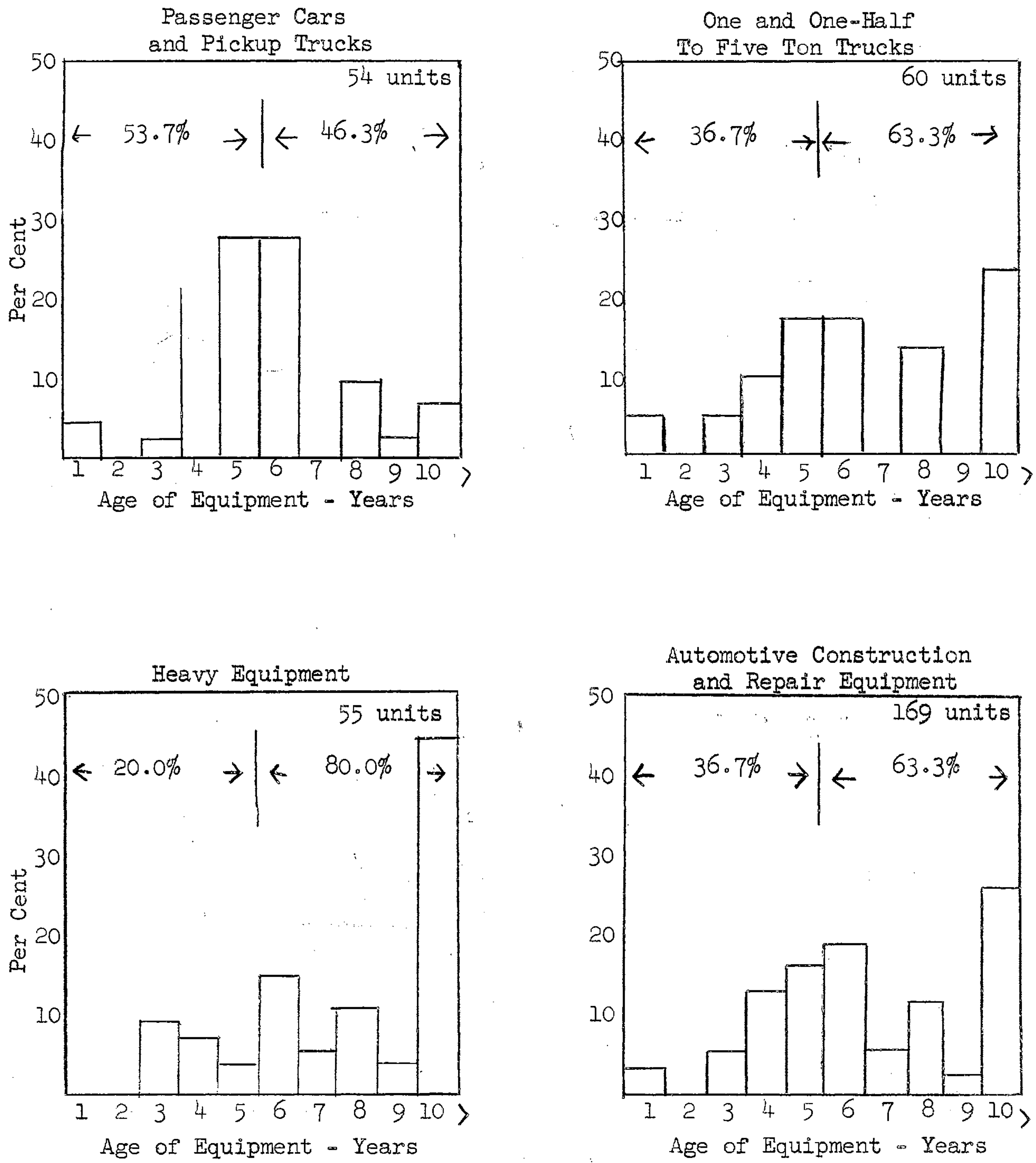

Figure 1. Water and Sewer Equipment in Service

painting, while other facilities need various repairs. The gradual deterioration of these facilities, which represent millions of invested dollars, could be prevented by funds made available for this type of preventive maintenance. Figure II shows the book value at the end of the past ten fiscal years of water facilities such as dams, pump stations, plants, and buildings; and also the amount expended each of these years for the maintenance of these facilities. The figure indicates that while the value of these facilities has more than doubled in the ten-year period, the amount of money spent to maintain these facilities has not increased. The same situation exists concerning sewerage plants and other departmental facilities.

Maintenance of Tulsa's streets and public property is also handicapped by the lack of general fund revenue. The shortage of funds creates a shortage of manpower and equipment. Tulsa has 950 miles of street, paved and unpaved, and the street and public property department is allowed only $800,000 a year for maintenance. Cleaning the streets requires approximately one-third of the total budget. The department must also maintain 200 miles of storm sewers, mark the streets, and maintain public buildings from these funds.

Only about one-half of the departmental budget goes to maintenance of the streets, or $421 per mile. Day to day maintenance is not carried on. Due to the shortage of revenue, a street cannot be repaired until it is in very bad condition. Holes in the streets must be present before repairs can be made. Thus the street department is continually faced with emergency situations because they cannot practice preventive maintenance.

The major arterial streets in Tulsa are in relatively good condition as they have been resurfaced by funds from a bond issue. However, other

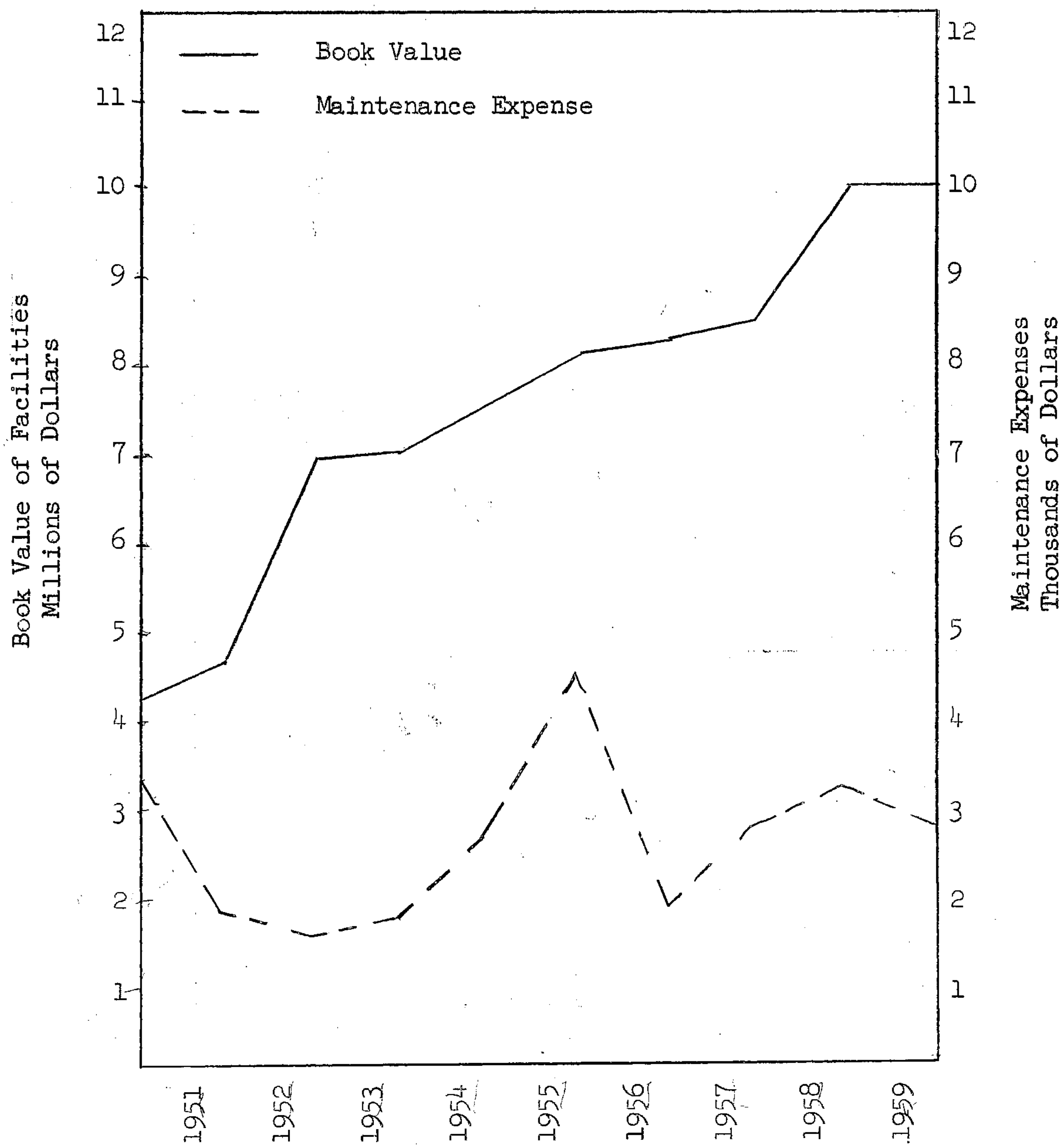

Fig. 2. Value of Water Department Facilities And Maintenance Costs

heavily used streets are badly in need of repair. Lewis Avenue from 11th Street to Independence Avenue, 21st Street from Peoria Avenue to Utica Avenue, and 15th Street from Utica Avenue to Yorktown are the streets in most serious need of repair at present. If these streets are not resurfaced in the near future, the subbase will be ruined and the streets will have to be reconstructed. Fifteenth Street from Utica Avenue to Yorktown could be resurfaced at a cost of $18,000 at present, but if the subbase is allowed to ruin and new construction is needed the cost will be greater than $45,000.[9]

The maintenance of public buildings also is financed by these funds. Fifty-thousand dollars per year is used to maintain the city hall, the libraries, and other public buildings. City Hall has never been sealed or sand blasted and has not been repainted for 10 years. Only emergency repairs are made.

The primary problem created by the shortage of general fund revenue in the police and fire departments is a lack of police and fire protection. Tulsa has only .86 officer per 1,000 persons while the national average for cities over 250,000 population is 1.5 per 1,000 residents. Officers must spend a portion of their time doing clerical work which could be done by secretaries if funds were available to hire them. Clerks could be hired at much lower salaries than the officers who now hold these positions and the officers would be free to devote full time to other duties.[10]

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[9]Guy Hall, Jr., Commissioner of Streets and Public Property.

[10]Bennie C. Garren, Commissioner of Police and Fire Protection.

Another acute problem arising from the lack of revenue is the critical condition of police cars. Sufficient funds are not available to replace these cars periodically and most cars have been driven over 150,000 miles before they are replaced. Consequently, cars must constantly be repaired, thus reducing the number of cars available for police use. Most of today's crimes are aided by the use of a car and it is necessary that the police department cars be in good condition at all times.

This lack of manpower and equipment results in inadequate police protection and investigation. Backlogs of calls for police assistance are almost always present. Police Commissioner Bennie Garren stated that delays of 30 minutes before police could arrive to investigate accidents or crimes were not uncommon. Burglary offenses have increased by over 100 per cent in the past year in Tulsa. Much of this is the result of the shortage of men and cars to investigate crimes and patrol the city. In a 1959 survey of the police force needs in Tulsa, it was found that the patrol division, the police department's primary means of preventing crimes, is operating at only 40 per cent of the needed strength.[11] The average patrol beat should be 1.5 square miles but some of the Tulsa beats are as large as eight square miles. Thirty-three beats are needed to patrol the city's 49.94 square miles but only 12 beats are in operation at present.

Tulsa's fire department has not been hampered as much by the lack of revenue. Tulsa's fire department facilities are fairly adequate and the staff is adequate and well trained. Tulsa's present system of twenty fire stations was built during a span of 46 years. The oldest (Fire Station

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[11]Chief Riggs, Tulsa City Police Department.

No. 1) was built in 1913 and the newest stations during 1958. Only one of the stations still in use was built prior to 1920. Six fire stations were constructed between 1921 and 1931, none between 1931 and 1940, four between 1941 and 1950 and nine since 1951 (four stations were constructed in 1958).

Of the twenty existing fire stations, Stations 1, 8, 9, 10, and 13 are obsolete because of poor structural condition, operational difficulties, or inadequate facilities. Stations 2 and 3 will be displaced by the proposed Crosstown Expressway. Stations 5 and 11, both two-story structures built in 1928, while in fair condition structurally at present, do not conform to modern fire station standards of construction. Both stations, however, are well located and should be tenable through 1975. Engine Company Number 4, having no separate station, is presently housed with Engine Company Number 1 at the Central Fire Station.

Existing fire stations of the five adjacent communities of Sand Springs, Broken Arrow, Jenks, Sperry, and Owasso, and the unincorporated community of Turley are reasonably well located. All six communities have volunteer fire departments. All have one centrally located fire station which is practical when volunteers compose the necessary complement of fire fighting forces. The fire departments of Turley and Owasso are not under municipal supervision. Equipment and stations of both are owned by independent organizations and fire services are furnished on a fee basis.

Tulsa residents have been willing to vote bonds for the construction of needed fire stations. Nine new stations have been built since 1951. However, this has tended to make the shortage of general fund revenue more acute. After the new stations are built from bond revenue they must be staffed and maintained out of the general fund revenue. This places an additional burden on the general fund. The last station which was built was vacant for almost a year after completion because sufficient general fund revenue to staff the station was not available.

TULSA'S FRINGE AREA PROBLEMS

The development of suburban fringes around the central city is an important cause of inadequate revenue to finance municipal services. The movement of industry, retail business and population to fringe areas has resulted in not diminished but increasing demands for services and public works facilities, while the production and property values against which to tax and borrow disappear beyond the city limits. Many central cities have experienced the out-movements of their middle and upper income groups and their replacement with lower income groups, thus reducing the tax base.

Some municipal services are far more closely related to the legally resident night time population than others. However, this tends to be more true for such functions as education, welfare, health, and hospitals which are outside common city responsibility group than for functions which are generally assigned city governments.[12] Many other services benefit not only the central city resident but also the day time population flowing to and from the outlying areas. This results in an increased burden on the city supplying these services.

The growth of a suburban fringe area around Tulsa has served to intensify the revenue problem of Tulsa and has increased the service demands on the city of Tulsa. Most of the problems stem from the lack of a metropolitan area wide governmental jurisdiction with the power to

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[12] Municipal and Intergovernmental Finance (Washington, 1953), p. 20.

finance and provide area wide services.

The suburban fringe area around Tulsa does not present problems as serious as those of many older cities. The fringe area around Tulsa has maintained substantial growth since 1940 and many problems have resulted. Many people have the desire to escape the disagreeable aspects of urban life without relinquishing the economic and cultural advantages of it. These people can purchase new homes and larger lots in suburban areas with a small down payment. They can secure the freedom of wide open spaces and with the added inducement of escaping city taxation, they move into suburban areas without an understanding of the difficulties to be encountered in obtaining municipal type services.

Tulsa is faced with what Max Lerner has aptly described as development by sprawl.[13] Deficit areas have developed which pay much less in taxes than they receive in roads, ditches, water mains, sewers, and other municipal services. This urban sprawl has left in its wake large amounts of open space which is virtually useless for either urban or rural use. The process has borne no relationship to future site development, soils, water, or topography. "It is too random, too formless, too inefficient; most often it is too blighted even to retain its attraction as a place to be filled in."[14] Urban sprawl threatens to become a permanent waste, not a transitional pattern as many people assume. The major sections of Tulsa affected are North and East Tulsa. Even at best, its costs are staggering in terms of services and utilities. Areas that could have,

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[13]Max Lerner, America As A Civilization (New York, 1957), p. 174.

[14]Metropolitan Tulsa Residential Land Needs (Tulsa, 1959), p. 8.

under normal densities, held 2,500 families may hold only 400 families. "The costs of clearance and reassembling land are tremendous. The slums of tomorrow are being built upon the fringes of Tulsa today."[15]

Perhaps the most urgent problem presented by the growth of a suburban fringe is the lack of an adequate water and sewerage system. Part of the fringe area has no sanitary sewer system, a fact which creates health hazards not only for the fringe area but for the entire metropolitan area. Residents of these fringe areas install their own wells and septic tanks and unless the residential lots in the fringe area are of substantial size, the danger of water pollution is ever present; as the locations build up, the danger becomes even greater. This problem is especially acute in Turley, the largest unincorporated area in the Tulsa suburban fringe. Turley, with a population of over 3,000, has no sanitary sewer systems at present. Plans to finance such a system are now being considered, with the funds to be made available by the sale of revenue bonds.

A companion problem is the lack of adequate water systems. Until recently, fringe area communities found that it was generally sufficient and more economical to obtain their water supply from a local source, generally underground. However, limited water supplies are no longer adequate to take care of domestic requirements of increased population and industry. The Turley area is faced with a water shortage at present. Citizens of this area attempted to provide water cheaply and in doing so failed to provide adequate water for a fully developed area. The 3,000 acre area is served by one six-inch water line through which Turley sells water to Sperry as well as providing water for area residents. This is

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[15]Ibid.

a rapidly growing area which will soon be faced with an acute water shortage.

The existence of a suburban fringe area has not caused the traffic problem which has resulted in many larger metropolitan areas. Tulsa has an adequate bus service and since the fringe area is not concentrated in one small area, very little traffic congestion occurs as a result of the existence of fringe areas. Plans for an inter-urban expressway system are now being considered which would aid a great deal in solving the traffic problem which now exists.

Police protection is virtually nonexistent in most of the fringe area. Fire protection is provided by a volunteer fire department in the unincorporated Turley area and the fire department makes out of the city calls on a fee basis. However, this does not provide adequate fire protection. Fire hydrants are limited in number and many suburban pipe lines are inadequate for hydrants.

In summary, the chief problems of metropolitan Tulsa are the result of a shortage of general fund revenue and the emergence of a randomly developed suburban fringe area. The scattered development has caused blighted areas and a deterioration of property values, which will not support an adequate level of services. Tulsa has been forced to maintain a thin minimum of inadequate services due to the shortage of general fund revenue. Preventive maintenance cannot be practiced and the depreciation of plant and equipment has resulted. This shortage of general fund revenue can be traced primarily to the limited taxing power of Tulsa as provided for by the Oklahoma State law. The city is forced to rely almost entirely upon utility revenue, licenses, and charges to finance the operation of the government's facilities and to provide the governmental services. This forced dependence on utility profits has distorted the Tulsa financial structure. The deficiencies in Tulsa's metropolitan services cannot be eliminated without a substantial increase in general fund revenue.

CHAPTER III

PROBLEM SOLVING PROCEDURES

The purpose of this chapter is to investigate general problem solving procedures which may be useful in solving Tulsa's financial problems. There are many aspects to Tulsa's metropolitan revenue problem and no single tax or revenue gives an adequate or complete solution to the problem. Both the property tax and non-property taxes as well as tax sharing, tax supplements and grants-in-aid must be considered. The usefulness of the principle of marginal cost pricing as a means of setting prices on publicly owned utility services and improving Tulsa's revenue structure is investigated and discussed. A change in the structure of the local government may be necessary to eliminate the problems presented by the fringe area development and to give Tulsa a governmental structure with sufficient jurisdiction to meet the problems of finance. A general multiple approach to these problems is presented in this chapter.

LOCAL PROBLEM SOLVING EFFORTS

Before proceeding to a discussion of the possible solutions to Tulsa's metropolitan problems of finance, a brief look will be taken at what Tulsa is doing to solve these problems. The rural dominated Oklahoma legislature has not been sympathetic to the requests of cities for additional sources of funds. The Constitutional limit on general fund taxing power has virtually forced cities to rely on revenues from utilities and charges for services. State aid to Tulsa has been of minor importance with the recently enacted liquor tax the only state aid to the general fund. This amounted to only .9 per cent of the general fund revenue in 1959-1960.

However, Tulsa may not have done the best possible job in stating the case to get additional revenue sources or in using its political power to secure adequate funds. Interviews with Tulsa city officials disclosed a prevailing opinion that the city can do nothing to obtain the needed revenue while state enabling legislation is a necessary requirement and is virtually impossible to obtain. Hope was expressed that reapportionment would help solve this problem. Almost no attempts have been made to obtain additional non-property tax sources or to obtain additional revenue from state sources.[16]

Tulsa's efforts have been primarily confined to local measures. Utility rates, licenses, and service charges have been raised to meet the increased needs. Tulsa has obtained virtually no substantial new sources of revenue during the past twenty years. Parking meters were first installed in 1941 and since that time the only new revenue has been $125,900 apportioned to Tulsa from the state liquor tax and $68,000 from the local liquor licenses collected for the first time in 1959.

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[16]The Oklahoma Municipal League is attempting, at present, to obtain support for an increased city share of the state four cent gasoline tax and a bill is expected to be introduced in the 1960 session of the legislature. Tulsa is not a member of this group but is lending support to its efforts.

During this period rates on many services have been raised to meet the rising costs of city government. Water rates have been increased twice in the past five years and another raise is expected for 1961. Refuse collection monthly rates were increased from $1.50 to $2.00 in 1958 and a raise to $2.50 is proposed for 1961. The sewer service charge was expanded to include residents inside the city limits as well as those in the suburban fringe. This increased general fund revenue by $100,000. Parking meter rates were raised from five cents per hour to ten cents per hour in 1954. Water service connections have been raised twice since 1950 from $50 in 1950 to $60 in 1954 to $70 in 1958. Water rates and license fees have also been substantially increased during this period.

However, these increases in charges are not providing sufficient amounts of revenue at present. Each year the Mayor and the City Commission of Tulsa go before the County Excise Board to request an addition to the city's general fund from the property tax. However, they have had no success. In fact, their share of the property tax millage levy has gradually decreased to the 3 mill levy which exists now. In July, 1960, they again requested a greater mill levy for the 1960-1961 fiscal year; it was refused by the County Excise Board. Table V shows the declining city share of the property tax levy.

Tulsa County, unlike many counties, has imposed highly restrictive specifications for sewage disposal. These specifications are set up by the Tulsa City-County Health Department, which has jurisdiction over the entire county. At present some businesses on North Peoria Avenue in the Turley area face action from the Tulsa City-County Health Department if a sanitary sewer system is not constructed. Clyde Eller, chief sanitarian of the Health Department, stated that he is ordering the businesses to stop disposing of sewage in such a manner that it overflows into storm sewers which empty into a ditch which runs by Cherokee Elementary School.

TABLE V

ANNUAL GENERAL FUND TAX LEVY - TULSA

Year	Tulsa General Fund Levy	Year	Tulsa General Fund Levy
1936-37	4.58	1948-49	4.63
1937-38	4.34	1949-50	3.75
1938-39	4.70	1950-51	3.75
1939-40	4.88	1951-52	3.75
1940-41	5.03	1952-53	3.75
1941-42	5.00	1953-54	3.00
1942-43	5.00	1954-55	3.25
1943-44	4.00	1955-56	3.00
1944-45	4.00	1956-57	3.00
1945-46	4.00	1957-58	3.00
1946-47	4.00	1958-59	3.00
1947-48	4.00	1959-60	3.00

Source: Tulsa County Assessor's Office.

Residents of the Tulsa fringe area may obtain water and sewerage services from the city of Tulsa. A water main extension contract can be formed with the city by an individual or developer. The person making the contract must build a line according to city specifications. The builder receives one-half of the revenue from the line for ten years or until the cost of the line is recovered and then the line becomes the property of the city. Many of the fringe area residents receive their water from the city under such agreements.

Tulsa and Tulsa County have attempted to remedy the general metropolitan problems by relying on city-county joint efforts in the provision of many services. At present, libraries, health services, and civil defense are administered by city-county boards and funds are furnished by both the city and the county governments. The Tulsa Metropolitan Area Planning Commission recently recommended the creation of a metropolitan park board to replace the city and county park boards. This would facilitate savings in cost through site acquisition, development, and supervision and the metropolitan park board would not be restricted by overlapping boundaries, as is the case under the existing system of two separate boards. Consideration is being given by both city and county officials at present to the creation of a metropolitan police force which would combine the existing county and city law enforcement facilities. Combining of communications and identification facilities of the Tulsa Police Department and the Tulsa County Sheriff's office will very likely be accomplished within the next year. Plans are being formed both by city and county officials for an expressway system to better handle the traffic in Tulsa and Tulsa County.

Creation of the Tulsa Metropolitan Area Planning Commission has done much to correct the serious problems which are presented by the suburban movement. The Tulsa Metropolitan Area Planning Commission was established jointly by the Board of Commissioners of the city of Tulsa and the Board of County Commissioners of the Tulsa County in May, 1953. This Commission consists of twelve members; six of whom are appointed by the Mayor, three members of whom are appointed by the Board, and one member is appointed by the Chairman of the Board of County Commissioners of the adjoining county having the greatest area included within a five-mile perimeter of the city. The Mayor of Tulsa and the Chairman of the Board of County Commissioners of Tulsa County are ex officio members of the Commission and are entitled to vote on all matters. All members serve for three year terms.

The Tulsa Metropolitan Area Planning Commission was empowered to adopt and carry out an official master plan for Tulsa and the surrounding territory which lies within a five-mile perimeter of the city limits. Before the master plan attained official status it had to be approved by the Tulsa City Commission and the Tulsa County Commission. The Tulsa Metropolitan Area Planning Commission completed a Comprehensive Plan in March, 1960, and all sections were approved August 2, 1960. The purpose of the Comprehensive Plan is to bring about a coordinated physical development in accordance with the present and future needs of the Tulsa metropolitan area. The plan provides a consistent framework within which individuals and public officials can make their own development decisions. This plan outlines what must be done to provide for the harmonious and economical arrangement of land uses, the provision of adequate and efficient means of transportation, the stabilization of investments and land values, and the development of public facilities needed for the health, safety, convenience, prosperity, and welfare of the area.

No type of improvement embraced within the recommendations of the Comprehensive Plan may be constructed or authorized without first submitting the proposed plan to the Tulsa Metropolitan Area Planning Commission and receiving its written approval and recommendations. This plan will facilitate the planned development of the entire Tulsa urban area as well as the city of Tulsa. The planning and zoning controls will enable Tulsa to eliminate the blighted, underdeveloped areas which present such an acute problem at present and which decrease the property values against which the city must tax and borrow. The planned development of fringe areas will also facilitate the provision of municipal services to these areas.

THE MARGINAL COST PRICING PRINCIPLE

Tulsa has attempted to escape the effect of the rigid legislative limit on general fund property tax levies by earning profits on city owned utilities and transferring revenues from these utilities to the general fund to be used for operating expenses. This has resulted in an uneconomical reliance on utility profits and has tended to distort the Tulsa financial structure. A revenue measure must not only provide substantial revenue, it must also be certain and not arbitrary and meet accepted standards of equity. Financing government operation from utilities' profits does not meet these requirements. This practice of pricing utilities services high enough to earn substantial profits is directly opposed to the principle of marginal cost pricing. This principle has received much attention as a method of setting prices on publicly produced services and it will be investigated to determine its applicability to the Tulsa problem.

Although the general concept of marginal cost pricing was touched upon by a number of early writers (Dupit, Marshall, and Wicksell), systematic development of, and widespread interest in the marginal cost proposal can be traced to the nineteen-thirties, particularly from an article published by Harold Hotelling in 1938.[17] The marginal-cost

[17] Harold Hotelling, "The General Welfare in Relation to Problems of Taxation and of Railway and Utility Rates," Econometrica, Volume VI (June, 1938), pp. 242-269.

pricing principle requires the adjustment of the output of all products and services so that, in each instance price will be equal to marginal cost.[18] This is the condition that would exist under pure competition. If all firms operated at the point of long-run optimum output - full utilization of a plant of the most economical size - marginal cost would equal average total unit cost. In this situation there would be no conflict between marginal-cost pricing and conventional full-cost pricing. However, some firms operate under conditions of either short-run or long-run decreasing average cost, the capacity of the existing plant or the smallest plant which is economical to build, is greater than that required to meet current demand. Cost per unit could be lowered by expanding output. Additional output could be produced which would have a greater value than that of the additional resources which would be used by such production.[19] Long-run decreasing cost exists when, even though the existing plant may be used to capacity, long-run average total unit cost would decline if the plant capacity and output were increased, because the economies of large scale production are not yet fully utilized.[20]

Under either of these conditions marginal cost is less than average cost and a conflict arises. This situation is illustrated in Figure III. If Price is set at average cost (P_1 on Figure III) a deficit is avoided but output is uneconomically restricted and price is above marginal cost of production. On the other hand, if

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[18] Robert W. Harbeson, "A Critique of Marginal Cost Pricing," Land Economics, Volume XXXI (1955), p. 54.

[19] John F. Due, Government Finance (New York, 1959), p. 428.

[20] Ibid.

price is equated to marginal cost (P_2 in Figure III) optimum output is achieved but a deficit is incurred. The output at which average revenue is equal to marginal cost is in the range in which average cost is decreasing and thus marginal cost is below average cost.[21]

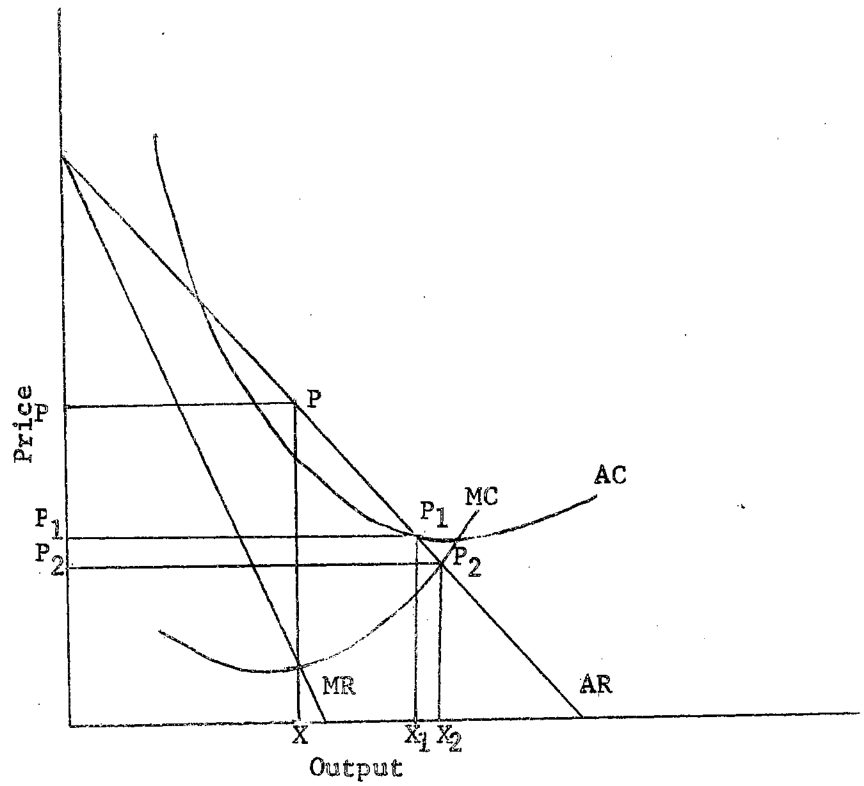

Figure 3.

Decreasing Cost Conditions for a Government Enterprise

[21]P in Figure III represents the price at which profits are maximized, but output is severely limited. This is the monopolist's price which many cities, including Tulsa, are moving toward.

Several opposing points of view have developed as to what is the best solution to this dilemma. Proponents of marginal-cost pricing maintain that the deficit is unimportant and that any attempt to eliminate it by a higher rate would lead to uneconomic restriction of use.[22] They propose to cover the deficit by lump-sum taxes which must be of a kind that do not affect price or production relationships. Income and inheritance taxes and taxes on land values have been suggested for this purpose.

The basic argument in support of the marginal cost proposal is that if adopted universally it will result in an optimum, in the sense of purely competitive, allocation of resources. If production is adjusted so that all prices are equated to marginal cost, the marginal dollar's worth of resources used in the production of each commodity or service will yield the same increment of satisfaction to consumers; hence within the limits set by the resulting income distribution, no increase in satisfaction could be obtained by any further redistribution of a given quantity of resources.

Several objections have been advanced, however, against this point of view. The deficit, which occurs when marginal cost pricing is applied to decreasing cost industries, must be financed; if it can be covered by a tax which falls upon economic surpluses and does not affect price or production relationships, resource allocation will be better if this method is used than if full cost pricing is used. Taxes which meet this requirement must be lump sum taxes which fall on producers' or consumers' surplus and thus do not violate the marginal conditions of exchange.[23]

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[22]Harbeson, p. 55.

[23]Under decreasing cost conditions, even with marginal-cost pricing, the full benefits of pure competition are not obtained because the scale of output does not permit operation at the lowest total unit cost.

The principle taxes that can be said with certainty to meet this requirement are poll taxes and taxes on inheritances and land values.[24] However, a poll tax of any substantial amount would be so regressive in its effect as to be intolerable to the extent that ability to pay is considered to be a desirable basis of taxation. Taxes on inheritances and land values are satisfactory in principle, but it is very improbable that they could be made to yield adequate revenue if marginal-cost pricing were adopted generally.

Hotelling and other proponents of marginal-cost pricing advocate reliance principally upon personal income taxes on the assumption that this type of tax does not affect price or production relationships. However, this position is not definitively established by empirical evidence. Unless it can be conclusively demonstrated that the personal income tax avoids any distortion of prices and production, the marginal-cost pricing proposal could not be financed on any very extensive scale.[25] Resort to taxes which have effects on price or production relationships would destroy most or all of the benefits of marginal-cost pricing.

The financing of the deficits involved in marginal-cost pricing presents a further problem. To the extent that the taxes used to finance the deficits are paid by persons who are not consumers of the goods and services sold at marginal cost, the consumers are being subsidized by other taxpayers. There is a redistribution of income in favor

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[24]Harbeson, p. 59. This would be particularly true of Tulsa. At present, utilities provide about $8 million in revenues each year while only $3,700,000 is spent to operate utilities during the year. Thus Tulsa would be losing $4,800,000 a year if marginal-cost pricing were employed. A tax on real property would probably not yield an adequate revenue to finance the gap thus created.

[25]Ibid.

of users of goods and services produced under marginal cost pricing arrangements, and there is no objective basis for determination of whether or not welfare has been increased as a result of this change. A particular pricing system, such as marginal-cost pricing, cannot be evaluated solely with reference to its effects on resource allocation.

It is possible, of course, to sell goods and services at marginal cost without having one group of individuals subsidize another by use of a "two point tariff."[26] One part of the tariff would assess the costs which vary with output and would be based on marginal cost; the other part would consist of a lump-sum tax or standby charge assessed on each user and sufficient in the aggregate to cover the fixed costs. To be ideal from a welfare standpoint, the standby charge should reflect accurately each individual's estimate of the utility to himself of the enterprise concerned. However, it is very doubtful whether any practicable method could be developed to enable the taxing authority to measure accurately individual consumer's surpluses. "As Professor Henderson has said, 'The only person who can attempt to make an estimate of his consumer's surplus is the consumer himself. Under these circumstances a lump-sum tax is likely to exceed consumers' surplus for some individuals and to fall short of consumers' surplus for others and no conclusion can be reached as to whether or not welfare has been increased without resorting to interpersonal comparisons of utility.'"[27]

Marginal-cost pricing is subject to serious limitations when adopted on a selective basis. If marginal-cost pricing were adopted by government

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[26]Ibid, p. 61.

[27]Ibid, p. 60.

business enterprise while most prices in the private sector of the economy were maintained above marginal cost, an excessively large amount of the government services would result and an economical allocation of resources would not be attained. The only completely satisfactory solution to this problem is the attainment of equality of marginal cost and price in the private sector, which is almost impossible to accomplish.

Another objection to marginal-cost pricing is that the failure to price at full cost leaves the administrators without a guide to investment policy and thus encourages empire building expansions.[28] Thus, it is possible that there would be a bias toward excessive investment which might have more serious effects on welfare than the restriction on investment resulting from full-cost pricing.

Finally, the marginal-cost pricing proposal is subject to various limitations of an administrative and political nature. On the administrative side the determination of marginal cost is a more complex and difficult problem than is commonly understood and at best can yield only a rough approximation to the idealized marginal-cost concept of economic theory.[29] Hence the actual benefit of marginal-cost pricing with respect to the allocation of resources will necessarily fall materially short of the theoretical ideal. For example, in order to avoid fluctuations in prices of disturbing amplitude and frequency, it is necessary to resort to some averaging of marginal cost although the resulting figure departs rather widely from the theoretical concept of marginal-cost pricing. Also, empirical investigations of marginal costs have thus far not even

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[28]Due, Government Finance, p. 429.

[29]Harbeson, p. 71.

attempted the difficult task of determining marginal social cost as distinct from marginal cost to the individual producer. Yet it is marginal social cost, not marginal cost to individual enterprises, which is the relevant concept from the standpoint of efforts to maximize welfare.

Of all the limitations of the marginal cost pricing proposal, obstacles which may be called political in a broad sense, are perhaps the most decisive.[30] The basic difficulty is that the proposal does not harmonize well with the philosophy of the private enterprise system. The marginal-cost pricing proposal is a social rather than a private standard of pricing, in that it is primarily concerned with optimum use of resources and gives consideration to profits only incidentally and to the extent that they are consistent with attaining the former objective.

Even if the marginal cost pricing proposal is not accepted, the practice of raising a share of municipal revenue by means of profits on utility services is subject to several objections. It is evident that there is a misallocation of resources when utility services are priced so as to bear more than their total costs of provision. The consumption of service is held to artificially low levels by the high rates. Under-allocation of capital and labor to utilities and fields of private expenditure and overallocation to other municipal activities may result.[31] Another objection which has been pointed out is that city residents lose the benefits of deductibility of local taxes for federal income tax purposes, when city government services are financed in large part by

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[30]Ibid, p. 75.

[31]Marshall Colberg, "Utility Profits: A Substitute for Property Taxes," National Tax Journal, Volume VIII (1955), p. 384.

utility profits.[32] Also the high water rates which exist under these conditions may tend to eliminate Tulsa as a possible location for industry which must use a great deal of water. Thus a potential addition to the city's property tax valuation is lost.

The earning of utility profits tends to conceal the actual cost of government. Most consumers of the cities' utility services believe that the high utility rates are attributable to the high cost of producing the service rather than to an indirect collection of taxes, the burden of which is distributed in proportion to the use of the utility service. The city residents should be made aware of the amounts which they are spending for the provision of government services in general. Also, it is very difficult to justify the distribution of municipal tax burdens on the basis of water consumption under usual standards of equity. Such a distribution of tax burdens is highly regressive. The tax is uniform in rate upon all; the wealthy and the poor pay exactly the same rate. This hits the lower income groups hardest in that it takes a larger percentage of their income than from the wealthy.

THE PROPERTY TAX

In view of the above discussion it seems evident that financing Tulsa's municipal needs by the property tax instead of by utility profits would improve Tulsa's overall tax structure. Thus people would be more aware of the amount of public services which they are financing and could act accordingly. If they desire more or better quality government services than are available they could purchase these services through

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[32] Ibid, p. 386.

the property tax. By financing government sources through utility profits, people may be forced to buy more government services than they desire, or they may not be able to buy as many services as they want, because the tax is hidden in the high utility rates. Thus raising needed revenue from the property tax is more in line with Adam Smith's second cannon of taxation, that taxes should be clear and plain to the contributor and every other person. This is certainly not the case with taxation by earning profits on government owned utilities and facilities. Although property taxes are open to objections on several grounds, their effect on resource allocation appears to be considerably less adverse than that of above-average-cost pricing of utility services.

Use of the property tax to replace revenues now obtained from utility profits could be accomplished by setting the utilities up in a special fund such as the five which now exist. The utility services would be priced at full cost with no profits earned. The utilities could assume all of their debt and all of the revenue from utilities could be earmarked for the Utilities Fund. The loss in general fund revenue could be replaced by revenue raised by a property tax levy.[33] The amount of the loss of general fund revenue would be offset to some extent by the assumption of utility debt by the Utilities Fund because fifty per cent of this debt at present is financed by property tax levies. Full cost pricing could be employed on utilities services and no indirect tax on utilities users would result.

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[33]This would require a constitutional amendment raising the property tax limit.

The property tax in Oklahoma is strictly a local government tax. The state has not levied a tax on property since 1933 and this is virtually the only productive tax which the state does not employ. It seems, therefore, that the use of this tax by Tulsa should be increased. This will necessitate the raising of the Constitutional 15 mill general fund levy limit. This overall limit might be replaced by specific limitations which specify a maximum limit for each levying unit and do not require the rationing of an overall county levy to all local units of government by the County Excise Board. This would probably be easier to obtain than the authority to levy a non-property tax on one of the sources which the state already taxes.

The city of Tulsa in the 1959-1960 fiscal year levied a 3 mill general fund levy and a 12.84 mill sinking fund levy. This amounts to only $15.84 per each $1000 of assessed valuation. This is a much lower proportion than that of most cities of comparable size. The county and school districts also levy property taxes. In 1959-1960 the total county levy was 12.79 mills while Tulsa School District Number One had a 38.47 mill total levy. This makes a total of $67.10 per $1,000 of assessed valuation for a resident of Tulsa. This appears to be a substantial amount, however, the ratio of assessed value to fair market value is less than 30 per cent.[34] The adjusted tax rate on a 100 per cent basis of assessment would be only $20.13 per $1,000 and this does not appear to be a burden. Improvement in the assessment and administration of the property tax would help insure that the burden complies with accepted standards of equity. A breakdown of the property tax levies is shown in Tables VI and VII.

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[34]Tulsa County Assessor's Office.

The recent passage of State Questions 390 and 392 has given Tulsa hope for additional revenue without any change in the general fund property tax limit. Question 390, passed on July 5, 1960, authorized counties to vote an ad valorem property tax levy of not to exceed 2 mills for operation of county health departments. Question 392, passed on July 26, 1960, authorized a similar levy for the operation of county libraries. In Tulsa County, both the health department and libraries are operated by a city-county board. Voting of the county millage levy would release $500,000 of the city's general fund revenue which is now spent for the operation of the city-county health facilities.

TABLE VI

AD VALOREM TAX RATES - CITY OF TULSA

	Fiscal Years	
	1958-59	1959-60
Levy, Per $1,000 Evaluation		
Tulsa County	$13.34	$12.79
Tulsa School District #1	38.60	38.47
City of Tulsa	15.62	15.84
Total (For resident of city of Tulsa)	$67.56	$67.10
Levy, Per $1,000 Evaluation (Breakdown)		
County, General Fund	$ 7.00	$ 7.00
County, School Levy	4.00	4.00
County, Sinking Fund	2.34	1.79
City of Tulsa, General Fund	3.00	3.00
City of Tulsa, Sinking Fund	12.62	12.84
School District #1, General Fund	25.00	25.00
School District #1, Building Fund	5.00	4.20
School District #1, Sinking Fund	8.60	9.27
Total (For resident of city of Tulsa)	$67.56	$67.10

Source: Tulsa County Assessor's Office.

TABLE VII

PROPERTY TAX IN TULSA

1926 - 1959

ACTUAL TAX RATES AS LEVIED PER
$1,000 ASSESSED VALUATION

YEAR	CITY	SCHOOL DIST. #1	COUNTY	STATE	TOTAL
1926	$19.00	$18.10	$ 8.96	$ .50	$46.54
1927	21.70	19.20	8.20	2.50	51.60
1928	18.90	20.50	8.30	1.50	49.20
1929	20.30	19.20	8.45	3.50	51.45
1930	20.93	19.57	8.37	3.50	52.37
1931	18.50	18.70	7.60	3.50	48.30
1932	24.00	19.44	7.23	3.34	54.01
1933	27.88	19.30	7.52	None	54.71
1934	23.22	18.72	6.69	None	49.31
1935	32.35	19.76	8.34	None	60.45
1936	21.96	18.53	8.03	None	48.57
1937	20.86	25.39	9.05	None	55.29
1938	19.17	20.04	8.57	None	47.80
1939	17.16	18.04	8.03	None	43.25
1940	17.91	18.57	8.40	None	44.88
1941	17.31	18.75	7.39	None	43.45
1942	20.54	18.03	7.05	None	45.64
1943	16.68	18.77	7.16	None	42.61
1944	17.72	18.55	7.41	None	43.68
1945	16.24	17.54	7.37	None	41.16
1946	16.67	20.62	8.73	None	46.04
1947	15.71	24.46	9.85	None	50.03
1948	14.83	24.00	10.05	None	48.90
1949	16.33	21.94	10.77	None	49.04
1950	14.92	22.56	10.49	None	47.97
1951	13.16	23.24	11.64	None	48.04
1952	11.55	28.62	11.54	None	51.71
1953	12.41	28.19	12.47	None	53.07
1954	13.77	28.91	12.27	None	54.95
1955	13.76	30.29	13.05	None	57.10
1956	15.30	30.80	13.13	None	59.23
1957	16.03	36.72	12.95	None	65.70
1958	15.62	38.60	13.34	None	67.56
1959	15.84	38.47	12.79	None	67.10

Source: Tulsa County Assessor's Office.

The property tax appears to be Tulsa's most promising tax source. This is due in part to the fact that Tulsa has a relatively high net assessed valuation, $292,166,121 in 1959. Assessed valuation has increased at an average rate of 7.59 per cent each year for the past five years. Also, as was stated previously, the property tax is the only tax which the state has allowed exclusive use by local units. Property taxation is very important in Tulsa's revenue structure and every possible effort should be made to modernize and strengthen it. However, to provide needed revenues and a tax climate more favorable to economic activity, the property tax may be supplemented by such other local taxes as are equitable and practicable.

The revenue needs of Tulsa require additional sources of revenue. The general fund needs for the 1960-1961 fiscal year exceeded available revenues by 2.7 million dollars. Unless new sources of revenue are made available, this difference must be made up by raising existing rates and by curtailment of services. It must be remembered, however, that the adoption of non-property taxes by local governments may postpone some of the much needed reforms in property tax assessment and collection. If the immediate demands for additional revenue is met by new taxes, the basic need for overhauling the inequities which result from a lack of assessment standards and equalization should not be forgotten.

NON-PROPERTY TAXES

Property taxes reach only a portion of the taxable resources of the Tulsa Metropolitan Area. They fail to tax the suburban fringe population or transient population who take advantage of many of the city's services but do not contribute anything to financing these services.[35] Property taxes also are less flexible and do not follow changing price levels or economic activity as closely as do such taxes as income or sales taxes.

The city income tax is perhaps the most productive of the non-property tax sources. The experiences of Philadelphia and a few cities in Ohio demonstrate that flat rate income taxes may, under favorable conditions in centers of business and employment, provide substantial revenues from both residents and non-residents, and may lessen the pressure upon property owners to bear increased taxes.[36] However, experience also shows that these taxes present serious problems and that their revenue possibilities are limited.

The use of income taxation at the municipal level is a relatively new development in the United States. Although a few experiments had been made with the municipal income tax in the 1930's, Philadelphia enacted the pioneer levy in 1940, which has served as a model for other local levies.[37] By 1958, there were nearly 500 municipal income taxes, Most of these taxes, however, were concentrated in two states, Ohio and Pennsylvania, plus a few Kentucky cities.[38]

Municipal levies differ a great deal from the federal and state income taxes. They do not apply to all income, but only to wages and salaries, plus the net profits of business enterprise, and they are applied

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[35]Alfred G. Buehler, "Revenue Improvements Under Present Laws and Government Structure," Financing Metropolitan Government (Princeton, 1955).

[36]Jewell C. Phillips, "Philadelphia's Income Tax After Twenty Years," National Tax Journal, Volume XI (1958), pp. 241-253.

[37]Due, Government Finance, p. 266.

[38]Ibid.

at uniform rather than at graduated rates. With a very few exceptions, no exemptions are provided and no deductions from income are permitted, except the expenses of doing business. Residents of the municipality are taxed on all earned income regardless of its source; and nonresidents are taxed on the portion of income earned within the taxing municipality. Withholding of the tax on wage and salary income is almost universal, and very important as a means of preventing evasion. Nonresidents and residents who work outside the city are usually required to file municipal income tax returns.

There are valid arguments both for and against the municipal income tax. Emory Glander gives the following arguments in favor of city income taxes.[39] (1) The city income tax is a tremendous revenue producer and relieves real estate of its heavy tax burden. (2) It is the most satisfactory solution to the problem of the "daylight citizens," the suburban dweller who works in the city, uses city facilities but pays no taxes. (3) By eliminating the tax advantage of suburban dwelling it gives impetus to city annexation of fringe areas where suburbs are intrinsically a part of the metropolitan area. (4) Cost of collection is relatively low.

Several arguments are also cited in opposition to the income tax. (1) Intergovernmental tax coordination is further complicated by imposition of income taxes on a third governmental level.[40] (2) Administration of the tax is complex and highly technical, and smaller municipalities may

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[39]Emory C. Glander, "New Types of Municipal Non-Property Tax Revenues," National Tax Journal, Volume III (1950), p. 98.

[40]R. A. Sigafoos, "The Municipal Income Tax - A Janus in Disguise," National Tax Journal, Volume VI (1953), p. 192.

lack resources for proper administration.[41] (3) Taxpayer compliance becomes increasingly expensive and difficult in meeting the tax requirements of numerous jurisdictions within a relatively small area.[42] (4) The usual equity of an income tax is in large measure lost by the failure to provide exemptions and deductions.[43]

Adoption of a city income tax by Tulsa would require prior enabling legislation by the state legislature. The state of Oklahoma levies an income tax on all personal income and all corporation and unincorporated business income. Thus adoption by Tulsa would tend to further complicate intergovernmental tax coordination. If Tulsa was to adopt a municipal income tax, the administrative difficulties which prevent effective utilization of the tax, might be partially overcome by the use of a tax supplement to the state tax. This would require cooperation with the state and the city would have to adopt the same base as the state. A city income tax would be more feasible if the fringe area becomes more populous and thus creates a greater need for additional municipal services. However, Tulsa's cost of government is rapidly outgrowing its means of raising revenue and the income tax would certainly provide much needed revenue especially if the property tax limit is not raised.

Another source of revenue which is rapidly assuming an important role in the tax structures of many municipalities is a general sales tax. There were, in 1958, 900 municipal sales taxes in operation in the United

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[41]Due, <u>Government Finance</u>, p. 266.

[42]Sigafoos, p. 192.

[43]Ibid, p. 188.

States.[44] They were yielding $972 million annually or about 7.6 per cent of all local tax revenue. The use of sales taxes by municipalities in the United States is largely a postwar phenomenon, although New York City had imposed the tax in 1934. After World War II many municipal governments were hard pressed financially by rising price levels and increased demands for services in the face of resistances to substantial increases in the property tax. As a consequence, the legislatures of several states authorized the cities to impose sales taxes, and a number have done so.[45]

Use of a municipal sales tax is another alternative source of revenue for Tulsa. Retail sales in the city of Tulsa in 1959 amounted to $550,517,335.[46] At a levy of 1 per cent this would have produced $5,505,173. However, state enabling legislation is also required prior to its adoption by Tulsa. The state levies a 2 per cent tax on all retail sales and since this is one of the most important state taxes it is unlikely that this legislation will be obtained in the near future.

Municipal sales taxes are productive of substantial revenue and they are relatively easy to administer. Costs of collection are low with the retailer acting as tax collector. Sales taxes also reach nonresidents who own no property and cannot be reached directly by the general property tax. The sales tax, however, is not well adapted to municipalities. John F. Due, in a recent study of municipal sales taxation, pointed out the following conclusions. "Widespread use of municipal sales taxes,

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[44] Due, pp. 316-317.

[45] Ibid.

[46] Tulsa Chamber of Commerce, Research Department.

with local collection, varying bases for the tax, and exemption for out-of-city delivery results in virtual chaos, with extremely troublesome compliance problems for the retailers, tax avoidance, greater store delivery costs, and the driving of business outside of the cities."[47] Some of these difficulties could be overcome by requiring uniformity of base between the city and state sales taxes, with no exemption of sales for out-of-city delivery and still more could be avoided by state collections of city taxes. Despite the criticism, the municipal sales tax has been a huge revenue producer and, once enacted, it usually meets with general acceptance of the taxpaying public.

The admissions tax is perhaps the most promising non-property tax for Tulsa. The only state tax on admissions is the 2 per cent sales tax and thus the admissions tax offers a definite possibility for Tulsa to obtain additional revenue. The admissions tax has been described as ideally adaptable for local use.[48] The cost of administration of the admissions tax is unusually low and the tax provides a relatively stable source of revenue since amusement constitutes a relatively fixed proportion of total consumer expenditures.[49] It also reaches the transient population within the city and, to a certain extent, fringe dwellers who use city amusement facilities. While less substantial in yield than taxes on income or retail sales, the admissions tax would provide Tulsa with a much needed source of diversification of revenue.

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[47] John F. Due, "Is Municipal Use of Sales Taxation Desirable?", Municipal Finance, Volume XXVIII (1956), p. 110.

[48] George E. Lent, "The Admissions Tax," <u>National Tax Journal</u>, Volume I (1948), p. 31.

[49] Glander, p. 101.

AN INTEGRATED REVENUE SYSTEM

The income and sales tax, while being the most productive of the non-property tax sources of revenue, are not particularly suited for use by local governments. An integrated revenue system for the state and local units with administration assigned on the basis of efficiency in performance and with a division of revenues between state and local governments seems to be preferable in Tulsa's case to local imposition of these taxes. The use of the state revenue system to supplement the local revenue system makes possible the effective use for all purposes of better taxation devices than if independent tax systems are utilized. State sharing with local governments of the proceeds from state administered, state collected, and uniformly imposed taxes provides several advantages.

First, there are considerations of equity. The state can impose graduated net income taxes on individuals, but such taxation is difficult, if not impossible, to enforce by Tulsa. A state can exempt food from its sales tax, but the Tulsa city government would find that exemptions might very seriously undermine enforcement.

Second, sharing avoids many of the territorial effects of small area tax jurisdiction, effecting a diversion of trade and the dislocation of business enterprise. The wider the area of uniform taxation, the less likely it is that a tax will affect economic activity within that area. Local income and sales taxes may make the Tulsa area less attractive for residence, employment, and trade in competition with nontaxing communities.

Third, tax administration should be more efficient and tax compliance should be more convenient if a uniform state-wide tax were substituted for numerous local taxes.

Fourth, a state should be able to raise more revenue from income and sales taxes than its local subdivisions can independently. It has better enforcement facilities and can also impose a higher rate of tax without driving away substantial economic activity. Also the larger area would make evasion of the tax much more difficult.

New York state pioneered in the development of locally shared state collected taxes. The policy began in 1896 when liquor taxes were divided with local governments. The most extensive use of shared revenues is in the field of motor vehicle taxation, both for registration fees and gasoline taxes. The burden placed upon municipalities by the construction of interurban highways to city boundaries, from which point traffic flowed over city streets, has slowly been rectified by sharing of these tax revenues.

Shared taxes are an important method under which the taxing powers and the tax administration of the state are made available to municipal governments. Generally, the funds are dedicated or earmarked by the states to predetermined purposes and thus they differ little from grants-in-aid in this respect.[50] But inasmuch as the sharing is usually on the basis of a percentage of collections, municipalities gain or lose as state collections rise or decline. The reluctance of many states to provide local governments with adequate powers to raise revenue adds impetus to the argument for locally shared state collected taxes.

State sharing of revenues offers a definite opportunity for Tulsa to obtain additional revenue. State collected taxes comprise about 65 per cent of the total state and local taxes, much more than the

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[50]The state commercial vehicles tax and the state motor fuel tax which Oklahoma shares with Tulsa and other cities are earmarked in this manner to a special Street and Alley Fund.

average for all states. Much of the revenue from these state collected taxes is apportioned back to the local units. However, cities in Oklahoma receive only five per cent of the state four cent gasoline excise tax, 23 3/4 per cent of the commercial vehicles license tax, and a small share of the state liquor tax. The revenue apportioned to Tulsa from the gas tax and the commerical vehicles tax is earmarked for the Street and Alley Fund and cannot be used for general fund expenses. Tulsa receives only three per cent of its total revenue from state collected taxes. The state is the source from which cities obtain their taxing powers, and the state must accept the responsibility for making the local tax systems adequate to their tasks. If the limitations on municipal taxing power are not reduced, the state must be willing to share its taxes with the cities.

The Oklahoma Municipal League has filed an initiative petition to give state cities and towns a larger share of the $100 million collected annually in road user taxes. The petition calls for cities to get 15 per cent of the road user taxes instead of the 3.83 per cent which they now receive. The money is to be apportioned on a population basis. Tulsa Street Commissioner Guy Hall, Jr., stated that Tulsa would receive more than two million dollars from this source if the measure is approved. This revenue would be earmarked for use on street construction, maintenance engineering, and lighting; but would release the general fund revenue now allocated to the street department.

Supplementary tax rates, which the state collects in addition to its own tax rate, a supplementary rate for a municipality, may also have advantages for metropolitan finance. This approach combines local autonomy in the determination of taxes with administrative economy of the state and helps to integrate the state-local tax structure. The supplementary rate is levied by the local government, so that the full responsibility for imposing the tax burden rests on the shoulders of the local agency involved. The tax is administered by the state although all of the revenue accrues to the local government imposing the tax. The basic elements of home rule are preserved by the fact that the local agency controls both the expenditure and the levy of the tax.

Tulsa makes no use of supplementary tax rates. Tulsa does not tax anything which the state taxes and, therefore, cannot levy a supplementary tax. If Tulsa should levy municipal sales or income tax they might benefit by doing it as a supplement to the state rate. Such a rate would enable Tulsa to set its own tax rate and to also take advantage of the administrative economy of the state.

The grant-in-aid is another source of municipal revenue which is receiving some attention in many cities. Tulsa received only about $11,000 in the form of federal grants in the 1958-1959 fiscal year and no grants from the state.

Grants are often criticized for giving federal and state governments more control over local affairs and for producing less desirable patterns of local spending. However, grants may tend to stimulate a higher level of standards for municipal governments and they may relieve the local tax burden thus enabling local units to establish a better tax structure.

The preferred functions aided by grants fall outside the traditional housekeeping functions of municipalities. Grants to assist police and fire protection, sanitation, water supply, and recreation are practically nonexistent.[51] What is needed by Tulsa and many other municipal governments is funds free from dedication, funds generally available for all budgeted purposes, such as the per capita grants now made in New York.[52] This would be a logical extension of the philosophy which justifies grants. The basic idea behind grants-in-aid to local governments is that the state government is better equipped to levy, administer, and collect certain types of taxes while local governments are better equipped to administer certain types of expenditures which have their primary impact at the local level but which a state interest can be assumed.[53]

LOCAL GOVERNMENT STRUCTURAL CHANGES

Some of the problems of metropolitan areas may be solved only by altering the present local government structure. Current metropolitan needs have outmoded substantial parts of the local governmental system. "The basic structure of local government, by and large," notes Lennox L. Moak, "fails miserably to reflect the best that is known concerning governmental structure . . . We cannot overlook the fact that our failure

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[51]Simeon E. Leland, <u>Needed New Municipal Revenues</u> (Washington, 1953), p. 23.

[52]Allen D. Manvel, "Strengthening Local Government Finances," <u>Proceedings of the Annual Conference of the National Tax Association</u> (1958), p. 382. Unconditional state grants to New York City under the Moore Plan were established in 1938. The Moore Plan substituted differential per capita grants for the previous system of grants and shared taxes. This was regarded by many, at the time, as an important breakthrough and precedent for increased municipal sharing in state fiscal capacity; however, general state aid has shown little sign of becoming an important source of local government revenue.

[53]James McBride, "State Administered Local Taxes, Shared Taxes, and Grants in Aid," <u>Proceedings of the Annual Conference of the National Tax Association</u> (1958), p. 120.

to devise improved local and metropolitan structures of government results in less efficient use of the supply of public money."[54]

There is, at present, a lack of area-wide governmental jurisdiction that can effectively provide and finance services, that can plan and regulate and that are constructed to facilitate adequate accountability to the metropolitan public for their actions.[55] In the relatively few instances where a local government does embrace most or all of the metropolitan area, it is usually still inadequate. Although its jurisdiction may be large enough, its powers are not. The need is for a more modern local government structure which gives the local unit adequate power and jurisdiction to provide and finance services. This, in Tulsa's case, may be attained by central city annexation of suburban governments or by the activation of metropolitan counties.

Annexation, the absorption of territory by a city, has been the most common method for adjusting local governmental boundaries in urban and metropolitan areas. The nature of its earlier use, however, has largely changed in the present century; and, consequently, in recent decades annexation has not had large-scale, general significance in solving the metropolitan problem of many of the large older cities.[56]

Another approach to providing better metropolitan area fiscal management would be the activation of metropolitan counties. The county as a basis for jurisdiction appears to be satisfactory for 121 of the 168 standard metropolitan areas. These metropolitan areas contain only one county, which provides already existing governments that have reasonably

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[54] The Council of State Governments, The States and the Metropolitan Problem (Chicago, 1956), p. 17.

[55] Ibid, p. 18.

[56] Ibid, p. 26.

appropriate territorial jurisdiction.

There are several reasons why the metropolitan county concept is gaining support. "First, the territories of most counties more closely approximate the limits of metropolitan areas than do the boundaries of other general local units. Second, county governments have been growing stronger, through state legislative authorizations to undertake additional functions and transfers of single functions. Third, converting county governments into metropolitan units may be easier to accomplish and as satisfactory in results as attempting to create new general governments of metropolitan jurisdiction. Fourth, in many instances other metropolitan approaches have been rejected or have proved insufficient after becoming operative."[57]

The task of modernizing county governments, giving them the necessary powers, and transferring to them functions which can best be administered on an area-wide basis would be difficult to accomplish. However, metropolitan county activation, while it cannot provide the basis for all metropolitan area unification, has the potentialities for making considerable progress in the right direction.[58] Widespread adoption of the metropolitan county concept depends upon acceptance by the people and their state legislative representative of a broader role and a new organizational pattern for counties in metropolitan areas.

Tulsa, like most other central cities, does not have government organization broad enough to cope with all metropolitan matters. There

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[57]Ibid, p. 114.

[58]Frederick L. Bird, "The State Impact on Metropolitan Area Finance," Financing Metropolitan Government (Princeton, 1955), p. 158.

has been a lack of area-wide governmental jurisdiction with which to provide and finance government services. Tulsa, however, has been more fortunate than many cities in coping with metropolitan problems. Tulsa and Tulsa County's joint efforts in financing and administering governmental services have increased in the last few years. There has been an increasing recognition by both city and county officials of the need for integrated services if the expanding needs of the metropolitan area are to be met adequately. Joint efforts are being carried on with libraries, public health work, civil defense, and metropolitan planning; and consideration is being given to the use of joint efforts in financing and administering parks and recreation facilities and law enforcement.

Tulsa has applied a relatively conservative annexation policy in the past. Areas were not annexed until they were well developed and had sufficient property valuation to support the services which were needed. This has sometimes led to the development of fringe areas with inadequate service and which contained an intermixture of industrial, commercial, and residential uses. However, Tulsa has been willing to extend water and sewerage service to residents of fringe areas on a fee basis and the Tulsa Metropolitan Area Planning Commission has been very successful in controlling land uses inside the five-mile perimeter around the city. As a result of the adoption of the Comprehensive Plan, they will be better able to control land uses and insure an orderly development of the area surrounding Tulsa. The planned development of fringe areas will eliminate blighted, underdeveloped areas which decrease the property values, income, and economic activity against which Tulsa must tax and borrow and will facilitate the provision of services to these areas.

Tulsa has experienced relatively little opposition to annexations. This can be traced to some extent to the fact that there have been no incorporated areas immediately adjacent to the city. This is especially true on the North, East, and Southeast sides of Tulsa where the greatest development has occurred. Although Tulsa's annexations have not kept pace with the territorial expansion of the metropolitan area, annexations have been rapid enough to prevent the existence of any acute fringe area problems. Annexation has also been important because it has contributed to preventing further increase in governmental complexity. By bringing unincorporated territory within the boundaries of the city, Tulsa has removed the opportunity for small cities and small single purpose special districts to be established.

While Tulsa has employed a relatively conservative annexation policy, the area of Tulsa has more than doubled in the past ten years. Tulsa has annexed some territory in all but five of the past thrity-five years. Although it has frequently been argued that Tulsa should increase its annexations in order to broaden the city's tax base, the city usually has had to invest much greater amounts to bring the service level of the annexed territory up to city standards than the city receives in increased revenue from the three mill general fund levy.

However, if Tulsa obtains additional revenue raising powers the gap between revenue and cost for the annexed area would be narrowed. The needs of the area would remain the same while the revenue obtained from the area would be greatly increased, thus narrowing or eliminating the gap. This when combined with the planned development of the fringe area (which will increase the potential revenue and reduce the cost of providing services for the area) will facilitate the use by Tulsa of an expanded annexation policy which will provide Tulsa with a governmental organization broad enough to adequately cope with all metropolitan problems. The expanded annexation policy coupled with increased joint efforts between Tulsa and Tulsa County will provide a relatively simple and easy means of altering the present local governments into a metropolitan government structure, and also will encounter only a minimum of resistance. In view of the present scope of metropolitan financial problems in the Tulsa area this approach will provide an adequate solution to these problems. However, if the development of joint efforts or annexations shows signs of lagging behind the metropolitan area needs and if the magnitude of the fringe problem increases, a more substantial alteration of local government structure will be necessary. The formation of a metropolitan county is a logical modification. The county as a basis for jurisdiction appears to be satisfactory for the Tulsa area as Tulsa County closely approximates the limits of the metropolitan area. Also, converting the existing Tulsa County government into a metropolitan county would very likely be easier to accomplish and as satisfactory as the creation of new general governments of metropolitan jurisdiction.

The development of the metropolitan county plan must be preceded by major reorganization of county government. Also, attitudes about county and city government roles may present a formidable obstacle to metropolitan integration of any significant type. The task of utilizing all of the political and public relations ingenuity available must be accorded a high place in such a program for metropolitan integration.

CHAPTER IV

SUMMARY AND CONCLUSIONS

The principal metropolitan financial problem of Tulsa, Oklahoma, is a shortage of general fund revenue. This shortage has distorted Tulsa's financial structure and caused deficiencies in services and facilities. The random growth of a suburban fringe area has intensified the revenue problems and increased the service demands on Tulsa.

Tulsa's financial requirements have steadily increased while the sources of revenue have remained fixed. The state government has placed rigid limitations on Tulsa's taxing power but has also failed to substitute any other means for the cities to raise revenue.

The property tax is the only productive tax which the state government does not employ; however, the rigid limit on the general fund levy of the property tax restricts the use of even this tax as a source of municipal general fund revenue. The state legislature has also failed to provide legislation that would enable Tulsa to levy non-property taxes. State shared taxes provide only a small amount of revenue to Tulsa and state grants-in-aid are nonexistent. Tulsa obtains virtually all of its general fund revenue from utilities collections, licenses, fees, and charges for services as these are the only sources available. These sources have been exploited extensively but have fallen behind the revenue needs and an acute shortage of general fund revenue has developed.

This shortage has forced Tulsa to rely heavily on its most productive source of revenue, the sale of utility services, by earning large profits on the sales of utility services. This reliance on utility profits has seriously damaged Tulsa's financial structure. The shortage of general fund revenue is evident when the city's services are examined. The city facilities have not been properly maintained and deficiencies in municipal services have developed. Plant and equipment have deteriorated and most city departments are severely undermanned. Existing deficiencies in municipal services cannot be corrected without substantial increases in Tulsa's general fund revenue.

The random growth of a suburban fringe area has intensified Tulsa's revenue problem. The fringe area presents additional demands for municipal services but does not provide additional revenue for financing these services. The development by sprawl has caused large underdeveloped areas which cannot support the needed services. The cost of providing services for these areas is very high while the random growth has so blighted the areas that they provide little revenue for the city.

A multiple approach to solving these problems is necessary, one which is broad and varied enough to adequately cope with Tulsa's complex financial problems. The development of a specific approach to solving Tulsa's financial problems is beyond the scope of this study; however, such an approach should be composed of some of the following:

1. Increased use of the property tax to provide general fund revenue. This could be accomplished by increasing the constitutional limit on the general fund levy. The present overall limit should be replaced by specific limitations which provide a maximum limit for each levying unit. The property tax provides substantial revenue for most

cities in the United States and is the only productive tax in Oklahoma which is exclusively a local tax. The property tax should be effectively administered to secure a minimum of inequities.

2. The setting up of utilities in a special fund and pricing utility services at full cost. This would prohibit the earning of profits on utility services and would remove the inequities resulting from utility profits. The price of utility services would then reflect the cost of providing the services and would not include a hidden tax. A better allocation of resources would be obtained. The loss in general fund revenue should be replaced by a property tax levy.

3. The local imposition of an admissions tax. This tax is well adapted for local use and the state levies only a 2 per cent sales tax on admissions. The admissions tax would provide a stable source of revenue and cost of administration would be low. This also would require state enabling legislation.

4. Increased use of locally shared state collected taxes. State collected taxes in Oklahoma comprise a high proportion of combined state and local taxes but very little of this revenue is apportioned back to the cities. Shared taxes provide more efficient administration and easier taxpayer compliance thus eliminating the waste resulting from duplication of collection. The use of the state revenue system to supplement Tulsa's system enables the effective use of better taxation devices than if an independent tax system is utilized. The state has a superior ability to raise revenue while Tulsa's ability to finance the functions it is capable of performing most effectively is limited.

5. The adoption of an expanded annexation policy to provide Tulsa with governmental jurisdiction broad enough to cope with all metropolitan financial problems. The expanded annexation policy should be aided by the planned development of the fringe area surrounding Tulsa.

6. Increased joint efforts between Tulsa and Tulsa County leading to the development of a metropolitan county. As the development of the metropolitan area continues, a more modern local government structure which will be metropolitan-area-wide will be necessary.

The development of an appropriate multiple approach to solving Tulsa's metropolitan financial problems is a subject which should be given immediate attention by the citizens and officials of Tulsa. The revenue problems have become so acute that prompt action must be taken if Tulsa is to continue to effectively serve its citizens and the surrounding metropolitan area.

Coping with the metropolitan area financial problems of Tulsa is both a state and a local problem. The state, being the legal source from which Tulsa derives its taxing powers, must accept the responsibility for making Tulsa's tax system adequate to meet the rising service and revenue demands. The state must increase the local taxing powers or be willing to share the productive state taxes with cities.

Tulsa's officials should do the best job possible in presenting their case to obtain additional revenue sources. They should utilize all their political power and public relations ingenuity to help secure adequate funds and an effective metropolitan government geared to present-day needs. Once the permission to levy taxes or to share state taxes has been secured, Tulsa officials should do their utmost to administer these levies as competently and to expend their proceeds as wisely as can be done.

The solution to Tulsa's problems of metropolitan area finance certainly is not a simple one. Much will depend upon the recognition of the urgency of the problems and of the financial condition of the local governments by the state government and the kind of leadership for progressive change that Tulsa has. However, one thing is sure, the Tulsa metropolitan area must move towards the establishment and the financing of an adequate metropolitan government in order to do the governmental job that the Tulsa metropolitan area needs.

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