The Impact of Tax and Expenditure Limitations: An Overview

Constitutional and statutory limitations have been imposed upon local government taxing and spending powers in this country at least since 1913.[1] Oregon's constitutional 6 percent limitation was adopted in 1916.

A new wave of tax and expenditure limitations or "TELS" proposals appeared during the late 1970s, but most of them were rejected by the voters until California's Proposition 13 passed in June 1978. In November of that year, nine of the 17 states with the direct initiative also had fiscal limitation measures on the ballot.[2]

While several states have adopted new limitation measures, the measures approved in California and Massachusetts are the most comprehensive and have had the most effect on reducing property taxes.[3]

This circular focuses on various impacts these recent tax and expenditure limitations have had on local government finances and service delivery in a few states. It begins with a brief description of the tax and expenditure limitation measures that exist around the country. It then examines some of the impacts these measures have had on local government revenue sources, the types of changes that have taken place in the way services are being delivered, and the impact on local control.

Description of limitations

Tax and expenditure limits commonly apply to tax rates, assessed values, tax levies, or expenditures. Some states have adopted combinations of two or all of these. In the past, they applied mainly to property tax rates; but more recently, they have been extended to assessed values and tax levies, designed primarily to reduce property tax bills (as opposed to reforming the state tax structure).[4]

In some cases, the newly imposed controls complement existing limits, but in other states they are substitutes for an existing system.[5] Additionally, the newer systems tend to be more restrictive than the measures adopted before the late 1970s.[6]

Table 1 lists the restrictions on state and local government taxes and expenditures as of November 1983. Only four states and the District of Columbia are shown with no limitations. The table also indicates the era in which the limits were enacted. Since 1978, 19 states have added some kind of limit on local government; 17 state governments, including Oregon, have imposed limits on their own expenditures.

Tax and expenditure limitations have several common features. First, they provide property tax relief, generally by restricting the amount of property taxes that can be levied. Some of the recently enacted measures also include a restriction on the imposition of new taxes or service charges. Further, they tend to protect property tax levies that retire current bonded debt but not necessarily levies that retire future debt.

Although limiting revenues has the effect of also reducing expenditures, some measures specifically place a cap on expenditures. The measures usually exempt some expenditures from the cap. Exemptions generally include Federal and state aid, dedicated funds, self-supporting enterprises, pension funds, and debt service.

Finally, most cap laws allow for emergencies. Every state with a constitutional expenditure limitation has an emergency override. Most of the statutory provisions do not, but the statutes can be amended in case of an emergency.[7]

This circular refers especially to TELS in California, Idaho, Massachusetts, Missouri, and New Jersey. The following sections briefly describe the limitations in these states.

California

Several measures have been enacted that affect local government revenues

[1] Steven Gold, *Results of Local Spending and Revenue Limitations: A Survey,* Legislative Finance Paper No. 5 (Denver, Colo.: National Conference of State Legislatures, July 1981), pp. 1 and 17.
[2] John Kirlin, *The Political Economy of Fiscal Limits* (Lexington, Mass.: D.C. Heath, 1982), p. 10.
[3] Gold, p. 22, and John Peterson, "Tax and Expenditure Limitations: Projecting Their Impact on Big City Finances," in *The Property Tax Revolt: Case of Proposition 13,* ed. by George Kaufman (Cambridge, Mass.: Ballinger Publishers, 1981), p. 171.
[4] J. Ward Wright, "Tax and Expenditure Limitations," in *Book of the States, 1982-83* (Lexington, Ky.: Council of State Governments, 1983), p. 418.
[5] U.S. Advisory Commission on Intergovernmental Relations, *State Limitations on Local Taxes and Expenditures* (Washington, D.C: USGPO, February 1977), p. 2.
[6] Ibid, p. 1.
[7] Wright, p. 419.

Extension Circular 1215 / October 1984

OREGON STATE UNIVERSITY EXTENSION SERVICE

Bureau of Governmental Research and Service, University of Oregon

50 YEARS OF SERVICE 1933 BGRS 1983 TO OREGON GOVERNMENTS

Table 1.—*Restrictions on state and local government tax and expenditure powers (November 1983)*[a]

States	State-imposed limits on local governments							
	Overall property tax rate limit[b]	Specific property tax rate limit[c]	Property tax levy limit	General revenue limit	General expenditure limit	Limits on assessment increases	Full disclosure	Limits on state governments
Total number	13	29	21	7	6	6	11	19
Alabama	CMS[f]	CMS[d]						
Alaska	CMS[e]		CM[e]					Const[f]
Arizona			CM[f]		CMS[f]	CMS[f]		Const[f]
Arkansas		CMS[d]	CMS[f,g]					
California	CMS[f]				CMS[f]	CMS[f]		Const[f]
Colorado		CS[d]	CM[d]		S[e]		CSM[f]	Stat[f]
Connecticut								
Delaware		S[c]	C[f,g]					
Dist. of Col.								
Florida	CM[f]	CMS[d]					CMS[e]	
Georgia		S[d]						
Hawaii							C[e]	Const[f]
Idaho		CMS[d]	CMS[f]	CMS[f]				Stat[f]
Illinois		CMS[d]						
Indiana			CMS[f]					
Iowa			CMS[d]				CMS[d]	
Kansas		CM[d]	CM[e]		S[e]			
Kentucky	CMS[d]						CMS[f]	
Louisiana		CMS[e]	CMS[f,g]					Stat[f]
Maine								
Maryland				CM[f]		CM[e]	CM[e]	
Massachusetts			CMS[f]					
Michigan	CS[d]	M[d]	CMS[f]				CMS[f]	Const[f]
Minnesota		S[d]	CMS[e]	M[illegible]	S[e]			
Mississippi		CMS[d]	CMS[f]	CMS[f]				
Missouri		CMS[d]		CMS[f]				Const[f]
Montana		CMS[d]					CMS[e]	Stat[f]
Nebraska		CMS[d]		CMS[f]				
Nevada	CMS[d]	S[d]	CM[illegible]					Stat[f]
New Hampshire								
New Jersey			C[e]		MS[e]			Stat[e]
New Mexico	CMS[d]	CMS[e]	CMS[f]			CMS[e]		
New York		CMS[d]						
North Carolina		CM[e]						
North Dakota			CMS[f]					
Ohio	CMS[d]		CMS[e,g]					
Oklahoma	CMS[d]	CMS[d]						
Oregon[h]			CMS[d]			CMS[f]		Stat[f]
Pennsylvania	CM[d]	CM[d]						
Rhode Island								Stat[e]
South Carolina								Stat[f]
South Dakota		CMS[d]						
Tennessee							CMS[f]	Const[f]
Texas		CMS[e]				CMS[f]	CMS[f]	Const[f]
Utah		CMS[d]						Stat[f]
Vermont								
Virginia							CM[e]	
Washington	CMS[e]	CMS[e]	CMS[e]	S[e]				Stat[f]
West Virginia	CMS[d]	CMS[d]						
Wisconsin		CMS[d]						
Wyoming		CMS[d]						

[a]C *county*, M *municipal*, S *school district*, Const *constitutional*, Stat *statutory*. [b]Limits on the aggregate tax rate of all local government. [c]Limits on individual types of local governments or limits on narrowly defined services (excluding debt). [d]Enacted before 1970. [e]Enacted from 1970 to 1977. [f]Enacted in 1978 and later years.

[g]Limits follow reassessment.
[h]Does not include 1983 legislative changes—that is, property tax rate limitation.

Source: U.S. Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism: 1982-83 Edition* (Washington, D.C.: USGPO, 1984), p. 98.

and expenditures. The best known is Proposition 13, which (1) limits the property tax levy to 1 percent of 1975 market value plus an annual increase, (2) limits increases in assessed value to 2 percent per year except for new construction and resold properties that are reassessed at current market value, (3) requires approval of two-thirds of the voters for certain nonproperty taxes imposed by local governments, and (4) requires a two-thirds vote of the state legislature to increase state taxes. The net result in the first year was a 50 percent decrease in property taxes.

Proposition 4, passed in 1979, limits increases in state and local government spending to a formula based on increases in population and changes in the national cost of living or changes in statewide per capita personal income, whichever is less.

Idaho

In November 1978, Idaho voters approved a property tax limitation measure identical to California's Proposition 13 except that it was in the form of a statute rather than a constitutional amendment. The legislature subsequently passed several measures designed to remedy unconstitutional provisions of the initiated measure while maintaining the intent of the limitation. In 1979, the legislature froze all property taxes for operating budgets to the amount certified in 1978. A local override provision was also enacted.

In 1980, the legislature continued the freeze but allowed those jurisdictions not levying the maximum allowed under the 1 percent to increase their levies to the allowable limit.

In 1981, another bill was enacted that allowed municipalities to either increase their operating budgets by 5 percent or exceed that amount if they had substantial increases in their local property market value.

In 1983, the legislature passed a bill that allowed cities to apply their "current tax rate" to not more than 80 percent of the annual growth in market value. If this rate produces an amount greater than the 5 percent budget increase limitation (passed in 1981), a city could certify the higher amount.[8]

Massachusetts

Proposition 2½ was passed in 1980 but was given time to go into full effect. Among other provisions, the law limits property taxes to 2½ percent of the "full and fair" cash value of the local tax base. Municipalities that exceed the limit must reduce their levies by 15 percent per year until the limit is reached. After the limit is reached, the levy may increase by no more than 2½ percent per year. The proposition also provided for an override by voters.[9]

Missouri

Also in 1980, Missouri voters enacted the "Hancock Amendment," which was similar to a Michigan tax limitation initiative. The amendment prohibits any local government from levying any tax, license, or fee or from increasing an existing tax, license, or fee without voter approval. It also limits the amount of state revenue that may be raised; prohibits reducing the state-financed portion of state-mandated, local-administered services; and requires state reimbursement for increased costs of new state-mandated, locally-administered services.[10]

New Jersey

In 1976, the New Jersey Legislature enacted a tax reform program that included the first local government spending limitation in the nation. The expenditure "cap" limits municipal annual appropriation increases to 5 percent. The reform program also limits county property tax revenue to a 5 percent annual increase and provides for similar limitations for public school and state spending. The package featured enactment of a state tax on gross income that funded a property tax relief program and increased state financing of public education.[11]

Impact of limitations

Even though it has been 2 years since enactment of the last new TELS, it is still difficult to evaluate the impact of these measures. One reason is that most states whose voters have approved limitations have subsidized local government revenue to make up part or all of the lost property tax revenue and have, therefore, avoided or delayed any drastic reductions in local services.

A second reason is that most published studies of the impact of TELS were written soon after the passage of a limitation measure and could only speculate on long term effects.

Even so, some generalizations can be made. The following sections review available information about some of the common impacts tax and expenditure limitations have had in selected states.

Effect on revenue

The most immediate impact of a property tax limitation measure is the reduction of revenue from that source.

[8]Association of Idaho Cities, *1984-85 Budgeting Manual* (Boise: Association of Idaho Cities, 1984), p. 1.

[9]Sherry Davis, "A Brief History of Proposition 2½," in *Proposition 2½: Its Impact on Massachusetts,* ed. by Lawrence Susskind and Jane Serio (Cambridge, Mass.: Oelgeschlager, Gunn and Hain, 1983), p. 4.

[10]Stanley Botner, "Revenue Limitation—Missouri Style," in *Public Budgeting and Finance,* 3 (Winter 1984) 4:24.

[11]Jerome Rose, "Events Leading to the New Jersey Tax Reform Program," in *Tax and Expenditure Limitations: How to Implement and Live with Them,* ed. by Jerome Rose (Piscataway, N.J.: Rutgers University, 1982), pp. 101-108.

In order to compensate for the loss, local government officials turned to other revenue sources, such as service charges and increased sales or income taxes.

Table 2 shows that property taxes collected by local governments[12] in California, Idaho, and Massachusetts actually decreased after imposition of the new limitation, although they continued to increase in Missouri and New Jersey, which have "softer" limitations.

The table also reflects the tendency for revenues from sources other than the property tax to increase following imposition of new property tax limitations. Out of necessity, local governments have diversified their revenue systems in order to obtain additional income to support current services.[13]

California

Revenue from sources other than property taxes has increased substantially in California since 1978. While property taxes dropped almost 50 percent following the enactment of Proposition 13, service charge revenue increased 26 percent the first year, 22 percent each of the next 2 years, and 14 percent in fiscal year 1982, all well above the national average.

Revenue from utility fees also increased dramatically in each year (including 19 percent in 1981 and 11 percent in 1982). By fiscal year 1982 charges and utility revenue equalled 54 percent of the four local revenue sources compared with 33 percent in fiscal 1978. Revenue from local taxes other than property tax also increased substantially, primarily reflecting increases in local sales taxes.

While many new charges were implemented, not every service was able to make up the property tax loss from the revenue generated by the new charges. In fact, many nonenterprise activities continue to be affected because they cannot raise sufficient revenue from charges to make up the loss.[14] This is particularly true for park and recreation programs.

While many existing fees increased in order to recover costs, a number of new fees were also adopted. City examples include fingerprinting charges, fire and burglar alarm permits, false alarm call charges, plan check permits, encroachment permits, baseball field use fees, land use permits (annexation, plan amendment, condominium conversion, lot line adjustments, etc.), library equipment rentals, book rentals, library research assistance, library cards, refuse collection charges, neighborhood park cleanup fees; and museum, zoo, and park entrance fees.

Table 2.—*Local government[a] revenue in five states (millions)*

State & limitation date	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
A. Property tax revenue							
California (1978)	$ 8,561	$ 9,586	$10,476	[illegible]	$ 5,800	$ 6,498	[illegible]
Idaho (1978)	158	175	188	221	214	218	[illegible]
Massachusetts (1980)	2,500	2,841	[illegible]	3,149	3,183	3,370	2,925
Missouri (1980)	926	923	[illegible]	994	1,053	[illegible]	1,121
New Jersey (1976)	3,204	[illegible]	3,413	3,628	3,599	[illegible]	4,295
B. Other tax revenue							
California (1978)	$ 1,427	[illegible]	$ 1,872	$ 2,228	[illegible]	$ 2,825	$ 3,047
Idaho (1978)	4	5	6	7	[illegible]	8	10
Massachusetts (1980)	16	18	26	21	23	26	33
Missouri (1980)	[illegible]	403	446	[illegible]	587	653	709
New Jersey (1976)	320	373	424	470	512	89	92
C. Charges and miscellaneous revenue							
California (1978)	$ 3,275	[illegible]	[illegible]	$ 4,789	$ 5,851	$ 7,125	$ 8,155
Idaho (1978)	[illegible]	99	[illegible]	138	161	181	222
Massachusetts (1980)	[illegible]	440	464	564	623	736	842
Missouri (1980)	495	538	565	662	779	877	1,002
New Jersey (1976)	622	632	667	836	1,006	1,200	1,244
D. Utility revenue							
California (1978)	$ 1,798	[illegible]	$ 2,226	$ 2,639	$ 3,102	$ 3,698	$ 4,126
Idaho (1978)	[illegible]	17	20	24	29	32	35
Massachusetts (1980)	[illegible]	377	388	418	477	575	674
Missouri (1980)	[illegible]	255	269	328	358	414	469
New Jersey (1976)	[illegible]	137	161	167	186	226	230
E. State intergovernmental revenue							
California (1978)	$ 8,237	$ 8,819	$ 9,848	$13,354	$14,874	$16,920	$16,928
Idaho (1978)	172	199	193	242	285	296	315
Massachusetts (1980)	1,172	1,142	1,223	1,694	1,790	1,878	2,085
Missouri (1980)	659	713	780	850	980	1,157	1,120
New Jersey (1976)	1,509	1,689	1,890	2,469	2,422	3,245	3,415

[a]Local government includes counties, municipalities, townships, special districts, and school districts.
Source: Bureau of the Census, *Governmental Finances* (Washingon, D.C.: USGPO, various years).

[12]Local governments included here are counties, municipalities, townships, special districts, and school districts.

[13]Catherine Spain and Blue Wooldridge, "Financing Local Government in the 1980s: Expansion Through Diversification," *Financing State and Local Governments in the 1980s: Issues and Trends,* ed. by Norman Walzer and David Chicoine (Cambridge, Mass.: Oelgeschlager, Gunn and Hain, 1981), pp. 112-116.

[14]Kirlin, p. 81.

Counties adopted many similar fees, especially for land use and engineering permits and for animal control. New county fees have been common in the health area (such as pregnancy tests, immunizations, health exams, and restaurant inspections). Overall, it appears that most fee increases have been in the areas of land use, engineering, and construction permits.

An article prepared by the Los Angeles *Times* stated that "a growing number of fees and other charges are either being increased or imposed for the first time for services once provided at little or no direct cost to the user... even taken together, however, these... cannot close the revenue gap left by Proposition 13 and subsequent tax-cutting measures."[15]

In addition to new user charges, several California cities were able to get voter approval to increase or establish new taxes. Some of these taxes were to finance services generally; others were for special purposes such as fire protection.[16]

Another revenue raising technique was a more extensive use of special assessment financing for certain services previously financed from property taxes. For example, in Fresno, property owners were asked to pay an annual "assessment" of $75 for street lighting.

Massachusetts

As table 2 indicates, property taxes dropped 13 percent between 1981 and 1982. Along with this drop, charges for service increased.

Before Proposition 2½, Massachusetts revenue sources had been fairly constant. Property taxes were the largest source of local revenue, and nonproperty taxes were small. User and utility charges were also a small portion of local revenues when compared to national averages.[17]

In 1980, when Proposition 2 ½ passed, state and local fees were almost 5 percent lower than the U.S. generally. With the passage of Proposition 2½, local officials examined their charging systems and increased and instituted many fees. By the end of fiscal 1982, state and local government user fee revenue had increased but was still well below the national average.

Examples of typical fee increases include those for ambulance and hospital services, trash collection, parks and recreation programs, and public works (including water and sewer).[18]

Massachusetts public schools were also greatly affected by Proposition 2½. Some of the types of school-related charges that were either increased or initiated included school lunches, athletics, and school transportation. It was estimated that a family with two school-aged children could pay as much as $300 more per year just for lunches, athletics, and transportation.[19]

Missouri

Part of the tax limitation measure requires voter approval for levying or increasing any tax, license, or fee. The consequence of this provision was that cities across the state went to the voters for approval to raise rates for a laundry list of services. In most cases, the cost of holding the election was nearly as great as the revenue to be generated by the increase. Apparently, however, voter approval was high.[20]

Effect on debt service

Unless debt service levies are exempt from the limitation, the fiscal limits will have an impact on availability of credit for the affected government. Debt financing is used to pay for major capital improvements in streets and highways; water and sewer systems and the physical plant (buildings and grounds); redevelopment and purchasing of major equipment, land, and buildings. Without some way of borrowing money, state and local governments cannot finance these major capital expenditures.

Most long term debt is in the form of bonds that are secured either (1) by the property tax as a general obligation of the government, or (2) by revenues from a public facility. While there are other types of debt, these are the most common. Because of the way they are drafted, fiscal limitation measures tend to reduce the ability of a government to meet the debt service payments (principal plus interest); consequently, investors consider the debt to be more risky.[21]

The result has been lower bond ratings and higher interest payments.[22] Both Proposition 13 and Proposition 2½ have had negative effects on the cost and availability of credit.[23]

When Proposition 13 passed in California, bond sales virtually stopped, especially general obligation bond sales. Although existing general obligation and revenue bonds apparently were not affected, existing tax-allocation bonds (used extensively in California and several other states to finance redevelopment projects) and lease-purchase bonds (the proceeds from which are used to construct a facility that is leased to a municipal government) were adversely affected.[24]

Tax allocation bonds are retired by assessed value increases and the subsequent increase in property taxes.

[15]Ronald Soble, "Cities, Counties Turning to New Fees to Offset Proposition 13," Los Angeles *Times,* part 1, June 8, 1983.
[16]Ibid.
[17]Daniel Holland and Patricia McCarnery, "User Fees and Charges," in *Proposition 2½: Its Impact on Massachusetts,* p. 82.
[18]Patricia McCarney, "Increasing Reliance on User Fees and Charges," in *Proposition 2½,* p. 354.
[19]Ibid, p. 352.
[20]Stanley Botner, "Revenue Limitation—Missouri Style," in *Public Budgeting and Finance,* 3 (Winter 1984) 4:25.
[21]Ann Thomas, "Fiscal Limitations and Municipal Debt: The Extreme Case of Proposition 13," in *The Property Tax Revolt,* p. 105.
[22]Jack Beebe, "California Bonds After Proposition 13," in *The Property Tax Revolt,* p. 152.
[23]Thomas, p. 109.
[24]Beebe, p. 158.

Lease-purchase bonds rely on the municipality's rental payment to pay the debt service. These latter payments come from a city's operating budget, which includes the property tax as one of its major sources.

Consequently, because of the limitations on property tax levies for new debt and limitations on assessed value increases, California local governments have few options for long term borrowing. Most capital expenditures are being postponed, are being financed by reserves being built up by development fees, or are being funded by certain new types of debt instruments that generally bring higher costs than traditional general obligation bonds.[25]

As with California, Moody's suspended Massachusetts municipal bond ratings after the passage of Proposition 2½. While not all cities experienced a decline in their bond ratings when they were reinstituted, cities most severely affected by the measure also experienced the greatest decline in their attractiveness to the bond market.[26]

While fiscal limitations tend to have a negative impact on local government borrowing, limitations can be structured to avoid adversely affecting credit. For example, in New Jersey and Michigan, capital budgets and debt service are exempt from the limitations. Texas and Michigan have emergency overrides that could be used to prevent bond default. Capital expenditures could, of course, be financed on a pay-as-you-go basis, but that is unlikely when tax and expenditure limitations have already put a severe strain on current operating budgets.

State payments

State aid to local governments tends to increase when a TELS is enacted. This aid is used either to help offset the revenue loss from property taxes or to provide direct property tax relief to taxpayers. Table 2 shows the changes in state intergovernmental aid between fiscal years 1976 and 1982.

California

State government had a $6.8 billion surplus at the time Proposition 13 passed, and local governments were able to convince the legislature that they should have some of that money in order to reduce the immediate impact of the measure.

For the first year, "Bailout I" included $2.2 billion for school districts, $1.48 billion for counties, $250 million for cities, $125 million for special districts; and $900 million was set aside for short term loans to local government. The state also agreed to fund health and welfare programs that had previously been financed by the counties.[27]

"Bailout II," enacted in 1979, amounted to $4.85 billion. It raised state aid to schools to 68 percent of all public education funds, and it shifted about 28 percent of the remaining school property taxes to cities, counties, and special districts.[28] Changes affected by "Bailout II" have generally remained in place since 1979.

Idaho

The passage of the 1 percent property tax limitation measure prompted the legislature to make numerous changes including increasing the state sales tax 1¢. Three quarters of the 1¢ increase was earmarked to replace local property tax revenues.[29] It is estimated that the state now pays 70 percent of school costs.[30]

Massachusetts

Local governments went to the legislature, seeking increased aid to cushion the impact of Proposition 2½. The $205 million relief package that was adopted proved insufficient to fully offset the tax loss. Part of the aid was distributed under a formula that divided the funds in proportion to per capita equalized valuation.

This formula proved to favor small cities over large ones.[31] On the average, the formula provided to smaller communities more state aid than they lost in tax revenue. Larger cities received only an average of 45 percent of their revenue loss in the first year.[32]

New Jersey

A major reason for New Jersey's cap law was to equalize school costs and to provide property tax relief. As previously noted, the tax reform program included a gross income tax. In 1979, the state received $845 million in revenue from this new tax. Sixty percent of this money plus some state surplus was distributed to local school districts in that year. The second largest portion (28 percent) was used for homestead tax rebates.[33]

Program reductions and changes in service delivery

Reducing revenues obviously means reducing expenditures. Each fiscal limitation causes government officials to examine services, staffing levels, and capital expenditures to determine where and how to reduce services. This section reviews some of the common reduction techniques and alternative service delivery systems that local

[25]Thomas, p. 115, and John Petersen, "The Municipal Bond Market: Recent Changes and Future Prospects," in *Financing State and Local Governments in the 1980s,* p. 141.
[26]Jerome Rothenberg and Paul Smoke, "The Pattern of Differential Impacts," in *Proposition 2½,* p. 494.
[27]Alvin Rabushka and Pauline Ryan, *The Tax Revolt* (Stanford, Calif.: Hoover Institution, Stanford University, 1982), p. 50.
[28]Ibid, p. 101.
[29]Association of Idaho Cities, p. 10.
[30]Telephone conversation with James Weatherby, deputy director of the Association of Idaho Cities, August 27, 1984.
[31]Rothenberg and Smoke, p. 306.
[32]Ibid, p. 307.
[33]Rose, p. 107.

governments have adopted in states with TELS.

Reduction strategies

While service priorities vary from community to community, it appears that initially no service is exempt from cuts. Research on cutback strategies indicates that initial responses to tax and expenditure limitations are likely to be across-the-board reductions rather than targeted cuts. Programs required by state and Federal mandates must be given preference in any selective cutback effort; beyond that, public officials must exercise judgment.

In doing so, they usually receive considerable pressure from special interest groups seeking to protect favored programs.[34] To the extent that options exist, programs most likely to be targeted for cuts are (1) public works, (2) general administration, (3) services heavily dependent on local revenue and largely unregulated from above, and (4) human service programs such as libraries, parks and recreation, and health services.[35]

A 1981 California Assembly Office of Research report[36] concluded that municipal fire and police services have been spared from serious cuts, but at the expense of heavier reductions in library operations, park and recreation programs, street maintenance, general city administration, and a variety of city social and community programs. The types of police and fire department reductions that did take place included loss of personnel through attrition, delay in purchasing new vehicles, restrictions in the use of overtime, and not responding to minor crimes.

Park and library services, which experienced the largest cuts, were reduced by laying off staff, reducing hours, reducing building and ground maintenance, postponing book purchases, eliminating bookmobiles, and closing branch libraries. Similar county services were also affected the most.

As in California, Massachusetts cities gave public safety top priority for retention. Even so, reductions similar to those in California were made: reduction in vehicle replacement, reduction in overtime, elimination of police foot patrols, reductions in traffic enforcement, reduction in number of fire companies or fire stations, and reduced staffing levels. Public works had the most severe reductions; street maintenance was one of the primary targets.

Human services also fared badly unless they could be funded by nonlocal resources. Library reductions included closing branches, reducing hours, eliminating programs, and postponing book purchases. Park and recreation departments eliminated many programs, closed pools, and reduced ground maintenance in parks.

In school budgets, many nonpersonnel items (books, supplies, and maintenance) and noninstructional staff were cut before the instructional staff. When cuts reached this level, electives and courses with small enrollments were dropped first.[37]

Service delivery changes

While fees were being raised to support existing services and while service reductions were being considered, some jurisdictions also looked at alternative ways of providing their services. These included using volunteers, contracting services to private industry, and using paraprofessionals. The following examples cover experiences in California and Massachusetts.

Many public safety departments converted to using paraprofessionals or civilians to perform office duties not required by more highly paid, sworn personnel. These duties included records management, report writing, dispatch, some traffic investigations, issuing traffic citations, and assisting with crowds and traffic control at fires.[38]

Simplifying the budget process was estimated to save one California city 1,000 personnel hours and $40,000 by forgoing the preparation of an extensive budget document and extensive public hearings.[39]

Using marketing techniques became popular for park and recreation departments that tried to raise money through donations. Such fund raising has paid for special programs, purchase of equipment, publishing brochures, park improvements, etc.[40]

Consolidation and reorganization of services also has been considered. These choices include combining police and fire departments into a public safety department with eventual sharing of responsibilities or creating large umbrella departments such as public works, in which building, planning, engineering, sewer, water, maintenance, and related activities are combined under one administration.

In other examples, two or more adjacent jurisdictions combined departments (such as police and fire), shared equipment, or entered into other cooperative arrangements.

One of the more common strategies has been to contract services out to a private business. Street sweeping, ambulance service, grounds mainte-

[34]Charles Levine, "More on Cutback Management: Hard Questions for Hard Times," in *Managing Fiscal Stress: The Crisis in the Public Sector,* ed. by Charles Levine (Chatham, N.J.: Chatham House Publishers, 1980), p. 309.

[35]Harold Wolman, "Local Government Strategies to Cope with Fiscal Pressures," in *Fiscal Stress and Public Policy,* ed. by Charles Levine and Irene Rubin (Beverly Hills, Calif.: Sage Publications, 1980), pp. 241-243.

[36]Kevin Bacon, *City and County Finances in the Post-Proposition 13 Era: An Analysis of Changes in the Fiscal Condition of California Cities and Counties During the 1977-78 to 1979-80 Fiscal Years* (Sacramento, Calif.: Assembly Office of Research, 1981).

[37]John Greiner and Harry Hatry, "Coping with Cutbacks: Responses in 17 Local Governments" (chapter 27), and Lawrence Susskind and Cynthia Horan, "Understanding How and Why the Most Drastic Cuts Were Avoided," in *Proposition 2½,* pp. 273-74.

[38]Kirlin, p. 88.

[39]Ibid.

[40]Greiner and Hatry, pp. 426-427, and Kirlin, pp. 88-89.

nance, janitorial services, park programs, and health services are examples of the types of services cities and counties have contracted out.

Use of volunteers is also popular, particularly for libraries, park and recreation programs, and general government. Some jurisdictions also use police and fire auxilliary units to supplement the regular officers for crowd control, crime prevention programs, and even some investigations. Park maintenance is sometimes turned over to an adjacent neighborhood group.

While this list is not exhaustive, it does illustrate some of the service delivery changes that have taken place. It should be noted that local governments have instituted a number of these changes before enactment of tax limitation measures. However, TELS provide additional incentive and intensify the consideration and adoption of alternative service delivery strategies.

Effect on local control

One of the impacts most prominently mentioned in the literature is the loss of home rule or local control. Some argue that local control has already been eroded by increased Federal and state interventions and mandates, but TELS appear to hasten the transfer of control to the states.

When severe limitations are imposed on the total amount of taxes that may be levied against particular properties, it becomes necessary for some central authority (usually the state legislature) to allocate available resources among competing local governments. Thus, decisionmaking in this crucial area moves from the local to the state level.

Also, to the extent that states are able to provide revenue from existing or new state sources to replace part or all of the lost property tax revenue, the new state aid is likely to come with conditions attached.

In California, for example, some of the types of conditions the legislature tried to impose included prohibiting local pay increases more than raises given to state employees; using reserves before using bailout funds; funding police and fire at existing 1977-78 levels; prohibiting counties from disproportionate reductions in health services to indigents; and funding certain school district and community college classes at specified fiscal 1978 levels.[41]

While some of these conditions were later struck down by the courts, there was a continued threat of loss of local control.

Conclusion

While this circular is not exhaustive in its examination of the impact of TELS, it highlights some of the more significant financial and service delivery changes. Tax and expenditure limitations do alter local government financing by shifting to "user pays" systems, to new or increased nonproperty taxes, and to increased dependence on state aid.

They also have made government examine who is responsible for providing services and what is the least expensive way of doing so. Finally, there is also evidence that local control over programs and funding is diminished.

The extent to which these impacts occur in any given state depends on at least five underlying factors:

1. the language of the limitation measure;
2. the existing state and local tax structure and finances, including the existence of a state surplus and the kinds of taxes levied;
3. the state's willingness and ability to respond, including the reallocation of state resources, enactment of new taxes, and the assumption of local responsibilities;
4. local governments' willingness and ability to respond within the framework established by the state; and
5. the condition of the state's economy.

[41] "Is Home Rule an Endangered Species?" *Tax Revolt Digest,* 1 (May 1979) 7:6.

The Oregon State University Extension Service provides education and information based on timely research to help Oregonians solve problems and develop skills related to youth, family, community, farm, forest, energy, and marine resources.

Extension's community development program helps Oregonians to resolve locally determined problems with objective information and assistance with its application on issues concerning economic development and the management of local government, land, and natural resources.

This publication was prepared by Katherine L. Tri, research assistant, Bureau of Governmental Research and Service, University of Oregon. It is copublished by Oregon State University Extension Service and the Bureau of Governmental Research and Service.

Extension Service, Oregon State University, Corvallis, O.E. Smith, director. This publication was produced and distributed in furtherance of the Acts of Congress of May 8 and June 30, 1914. Extension work is a cooperative program of Oregon State University, the U.S. Department of Agriculture, and Oregon counties.